

Lancaster City Council | Report Cover Sheet

Meeting	Cabinet	Date	9 February 2021
Title	Housing Revenue Account and Capital Programme		
Report of	Director for Communities and the Environment		
Purpose of Report			
To seek Cabinet decisions on Council Housing rent setting proposals and HRA revenue and capital budget proposals.			
Key Decision (Y/N)	Y	Date of Notice	Exempt (Y/N) N

Report Summary

This report provides an update on the council housing budgetary position and seeks Cabinet's decisions on council housing rent levels for 2021/22 and targets for future years. It also seeks approval of Cabinet's supporting revenue budget and capital programme proposals for referral on to Budget Council, in order to complete the HRA budget setting process for 2021/22.

Recommendations of Councillor Jackson

- 1) That the Housing Revenue Account Revised Budget for 2020/21, as set out at Appendix A, together with the resulting Capital Programme as set out at Appendix C, be referred on to Council for approval.
- 2) That the minimum level of HRA unallocated balances be retained at £500,000 from 01 April 2021, and that the full Statement on Reserves and Balances as set out at Appendix F be endorsed and referred on to Budget Council for approval.
- 3) That council housing rents be set in accordance with statutory requirements as follows:
 - for general properties let as at 01 April 2021, average rent be set at £74.87 for 2021/22;
 - for sheltered and supported housing properties let as at 01 April 2021, average rent be set at £70.00 for 2021/22;
 - for any relevant property becoming vacant the following policy be reaffirmed: that they be re-let at the higher 'formula rent'.
- 4) That garage rents be frozen for a 12-month period (rather than increased by CPI, as per the rent setting policy established by Cabinet in January 2017) in order to protect income levels currently achieved.
- 5) That the additional budget proposals as set out at Appendix E be included in Cabinet's budget proposals for referral on to Council, noting that any approvals be met from unallocated balances.

- 6) That subject to the above, the resulting Housing Revenue Account budget for 2021/22 onwards, as set out at Appendix A, together with the resulting Capital Programme as set out at Appendix C, be referred on to Budget Council for approval.

Relationship to Policy Framework

The budget represents, in financial terms, what the Council is seeking to achieve through its approved Housing Strategy in relation to council housing.

Conclusion of Impact Assessment(s) where applicable

Climate: as per section 3 (below) the report outlines a number of positive climate related impacts resulting from the HRA budgeting process. Also, see Appendix E for additional positive impacts.	Wellbeing & Social Value: positive impacts identified via additional budget proposals. See appendix E for details
Digital	Health & Safety
Equality: No significant detrimental impact on specific groups. See Appendix H – Equality Impact Assessment	Community Safety

Details of Consultation

Consultation with tenants took place through the District Wide Tenants Forum (DWTF) held virtually on 20th January 2021. The meeting was openly advertised to all tenants through a variety of platforms, with personal invitations also provided to those tenants who have previously engaged in consultation activity. Four tenants attending the meeting along with two Councillors and a number of Council Officers.

The group was provided with headlines of this HRA Cabinet report, with a focus on the proposed rent increase of 1.5%, the proposal to freeze garage rents for 2021/22, and the principles of service charge setting.

Council Officers presented the proposed Capital Programme to the group, focussing on 2021/22, with key areas of spend also highlighted for subsequent years. Particular focus was given to the Council Housing response to the climate emergency, and the activities over the coming years which will contribute to this.

Officers also highlighted the principles of place-based working and identified particular areas of HRA spend which deliver projects and outcomes at a neighbourhood level: where through working with local residents, local priorities can be set and delivered on.

The view of the DWTF is summarised as follows:-

- The group was broadly supportive of the Council's proposed rent increase, and the spending plans and projects outlined during the meeting, although is

was felt useful that feedback from residents within retrofitted properties should be gained.

- The group agreed that a review of garage sites and rents take place during 2021/22, to ensure best use of council land and property is delivered through garage sites.

Legal Implications

The Council may amend its reasonable charges for occupation of council housing dwellings as they determine. The level of rent must be reviewed from time to time (s24 Housing Act 1985). The Council must have regard to relevant standards set by Housing Regulator's guidance - pursuant to s193 of the Housing and Regeneration Act 2008. Furthermore, the decision to change charges must be taken in accordance with normal principles of public law.

The Council has had regards to the relevant standards set by the Housing Regulator and should it make a decision to increase it charges it should ensure that the change is implemented in accordance with statutory provision and guidance.

Financial Implications

As set out in the report

Other Resource or Risk Implications

None identified

Section 151 Officer's Comments

The Local Government Act 2003 placed explicit requirements on the s151 Officer to report on the robustness of the estimates included in the budget and on the adequacy of the Council's reserves; this requirement is addressed below.

Provisions, Reserves and Balances

- Specific HRA earmarked reserves and provisions are satisfactory at the levels currently proposed.
- An unallocated minimum balance of £0.5M for the Housing Revenue Account is a reasonable level to safeguard the Council's overall financial position, given other measures and safeguards in place, taking a medium to longer term view.

The above advice regarding unallocated balances is dependent upon other provisions and reserves remaining broadly at proposed levels, unless a specific policy change indicates otherwise. It is dependent upon Council not varying substantially the budget proposals as set out.

As a very simple measure, the inherent value of the risks facing the Council by far exceeds the total of all reserves and balances. Whilst it is not the case that all these risks could fall due immediately, Members should appreciate the need for holding balances and reserves

more generally and using them wisely. It is inappropriate to simply view the level of funds held, without considering the reasons as to why those funds might be needed.

Robustness of Estimates

A variety of exercises have been undertaken to establish a robust budget for the forthcoming year. These include:

- Producing a base budget, taking account of service commitments, pay and price increases and expected demand / activity levels as appropriate, and the consideration of key assumptions and risks.
- Reviewing the Council's services and activities, making provision for expected changes.
- Reviewing the HRA Thirty Year plan, together with other corporate monitoring information produced during the year.
- Undertaking a review of the Council's borrowing needs to support capital investment, in line with the Prudential Code.

These measures ensure that as far as is practical, the estimates and assumptions underpinning the base budget are robust, and the proposed HRA Thirty Year Business Plan presents a reasonable approach for the way forward. The Council has recognised the tendency for optimism bias regarding income forecasts particularly and this will be taken account of in the development of future key budget proposals and business cases.

Furthermore, arrangements are in hand to assess capacity needs and programming to help ensure successful delivery of key projects. Coupled with sound programming, the Budget Support reserve provides scope to help address any shortfalls in capacity etc.

Affordability of Spending Plans

In addition, the s151 Officer is responsible for ensuring that when setting and revising Prudential Indicators, including borrowing limits, all matters to be taken into account are reported to Council for consideration. In considering affordability, the fundamental objective is to ensure that the Council's capital investment remains within sustainable limits, having regard to the impact on housing rents for Council Housing investment. Affordability is ultimately determined by judgements on what is 'acceptable' - this will be influenced by public, political, and national influences.

The factors that have been taken into account in considering capital investment plans include the following.

- Availability of capital resources, including capital grants, capital receipts, etc
- Existing liabilities, service needs, commitments, and planned service / priority changes
- Options appraisal arrangements (including the extent to which other liabilities may be avoided, through investment decisions)
- Revenue consequences of any proposed capital schemes, including interest and debt
- Repayment costs of any borrowing
- Future years' revenue budget projections, and the scope to meet borrowing costs
- The likely level of government support for revenue generally.

The HRA has a Capital Financing Requirement which reflects underlying need to borrow. This is reviewed periodically to ensure that borrowing is, always, affordable, sustainable,

and prudent and a minimum revenue provision charge is made to the HRA each year to reflect the cost of borrowing.

Monitoring Officer's Comments

The Monitoring Officer has been consulted and has no further comments to add

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Links to Background Papers

See appendices A-G

1. Introduction

- 1.1 The Council is required under statutory provisions to maintain a separate ring-fenced account for the provision of local authority housing, known as the Housing Revenue Account (HRA). This covers the maintenance and management of the Council's housing stock.
- 1.2 This report sets out the rent setting policy and the latest position with regards to the HRA 30-year Business Plan, covering both revenue and capital budgets, and the associated level of reserves and balances. It seeks approval for rent levels and various other budget matters, with referral on to Budget Council as appropriate.
- 1.3 It can be noted that within the context of ring-fencing the HRA has a role to play in support of wider Council priorities; contributing to and facilitating projects across the district to support the wider ambitions of the council. The HRA also underpins the Council's general fund through contribution to support services and corporate commitments.

2. Achievements 2020/21

- 2.1. In a year dominated by the Covid-19 pandemic the council housing team provided support to the corporate emergency response¹, whilst continuing to provide services to council tenants in line with Covid-19 safety guidance. At times, projects and ambitions envisaged at the start of the year had to be paused or amended. Nevertheless, the following achievements were still delivered in line with service objectives, and the wider council priorities, despite the challenging landscape.
- 2.2. Key achievements:

¹ Staff from across Council Housing were redeployed throughout March-August 2020, supporting the Council's work in supporting vulnerable residents as well as maintaining vital services – with staff from RMS supporting Public Realm Teams in waste collection. Other notable roles including support for the 'Everyone In' campaign – supporting rough sleepers off the streets, and supporting Eggcup in getting their premises business ready.

- The Income Management Team have continued to perform well, supporting tenants and residents with financial issues, and rent arrears prevention. At Quarter 3 the current tenant arrears figure was £178K, a 20% improvement on the same point in 19/20, and with no recourse to legal action.
- In addition, between April 2020 and January 2021 the team have realised increased income for tenants of £324K in total through Discretionary Housing Payments applications and benefit claim maximisation – an average gain of £1,900 per case.
- Housing Quality Network (HQN) accreditation – the Income Management Team retained accreditation as of 13th October 2020, and presented as an example of good practice within the housing sector at the HQN annual conference in the same month.
- Significant work towards Tenants Participation Advisory Service (TPAS) accreditation carried out, as at mid-Jan 2021 the outcome is still outstanding.
- During July 2020 Residents from Kingsway Court Independent Living Scheme were moved to a local hotel for a week to allow for remedial works following a leak within the boiler tank.
- In May 2020 a significant fire took place on the Marsh estate. The Housing team (working with partner agencies) attended swiftly, and worked with residents to ensure the health and safety of all involved: assisting with the clean-up effort, and supporting affected residents into alternative accommodation
- Two partnership estate clearance events took place; on the Marsh estate, and then a follow up event on Ryelands. Fire safety was the focus, with Estate Teams, Repairs and Maintenance and Public Realm staff working with the fire service to deliver a whole-estate door knock and a rubbish clearance effort (with 13.6 tonnes cleared from the Marsh, and 21 tonnes from Ryelands).
- In the early months of the Covid lockdown, support phone calls were made to every council tenant. Advice around finances, Covid support, benefits, health services, and other information was provided, and tenants were referred and signposted where appropriate. Additionally, the team have written to all tenants four times throughout the pandemic offering an update on service delivery and offering help and support.
- Significant (and Covid safe) consultation took place with Mainway residents, working with the Beyond Imagination team at Lancaster University, to establish options for a major redevelopment of the estate. Consultation included several 'events', door knocking, and the establishment of the MyMainway Hub – a customer facing shop on Owen Road which allowed staff and tenants to be able to interact and develop ideas and ambitions for the project.
- Two-year programme being developed to upgrade 14 Independent Living schemes from analogue alarm and monitoring equipment to digital.
- 117 residents over the age of 75 in non-sheltered accommodation (out of a total of 188) contacted as part of a Winter Welfare visit service during December and January 20/21: to facilitate support over this period and beyond where required.
- 7,000 day-to-day repairs carried out in a Covid-safe way.
- Re-roofed 110 properties, installed 200 A-rated gas boilers, fitted 400 external doors, installed 50 disabled adaptations, installed solar PV to 35 sheltered bungalows, repaired 215 void (empty) properties.
- Achieved EPC 'A' standard on two sheltered conversions in Hala.
- Replaced composite fencing on Marsh, and about to proceed on Ryelands, to reduce fire risk.

- Appointed an Energy Support Officer to support new and existing tenants around their energy bills and carbon footprint.

2.3. Despite the expected impact of the pandemic over the course of the coming year – the service continues to be ambitious. Looking ahead - key examples of ongoing service delivery and future planning developed in line with the Corporate Plan and in line with the Council priorities is detailed underneath:

Priority	
A sustainable district	<ul style="list-style-type: none"> • A programme of significant investment is underway across the council's housing stock - see section 3 below.
An inclusive and prosperous local economy	<ul style="list-style-type: none"> • Provision of local 'Hub' (e.g. Branksome Estate): a base from which the local resident's group can develop activities and community led initiatives. • Provision of empty shop unit on the Ridge for food club activities • Local procurement of repairs (and other housing related) contracts. • Development of new build and property conversion programmes: utilising council land and assets to benefit communities e.g. Mainway project; Greaves property conversion; Galgate empty shop conversion; Independent Living scheme empty property conversions; proposed Extra Care accommodation scheme (in Beaumont). • Involvement in Kickstart employment scheme, providing 6-month work placements for young unemployed local residents. • Creation of apprenticeships.
Healthy and Happy communities	<ul style="list-style-type: none"> • Developing resident scrutiny groups and creating opportunities for residents to contribute to service development and the decision-making process. • Delivering a 'place-based' approach to estate and neighbourhood work: <ul style="list-style-type: none"> • Facilitating (and funding) community specific, community led projects; • Creating 'neighbourhood plans' to address local priorities, and promote partnership work between the housing service, residents and resident's groups, other council services (public realm, community connectors); external partner agencies (police, fire service, community centres) etc. • Exploring opportunities for digital connectivity across the district • To identify and understand the financial challenges within households, both before and during tenancies. • Carrying out pre-tenancy affordability checks, comprehensive benefit assessments, and identifying and addressing furniture and appliance poverty, for example.

	<ul style="list-style-type: none"> Delivering planned programmes of post allocation visits, tenancy audits, and winter welfare visits to identify support requirements.
A co-operative, kind and responsible council	<ul style="list-style-type: none"> 'Place-based' working: helping tenants to create sustainable groups and an ability to deliver initiatives supported by – not led by – the housing service. Recognising that local people are best placed to understand the issues in their neighbourhood. Supporting community centres (Marsh and Ridge, for example) to provide services to their residents, and developing access to a community fund pot for other community centres and groups to do likewise.
An inclusive and prosperous local economy	<ul style="list-style-type: none"> Provision of Repairs and Maintenance through direct Lancaster City Council workforce: 89 posts across administration, technical, and operative staff Use of apprenticeships in developing local skills: currently one apprenticeship within Repairs and Maintenance Service with another to be created during 21/22, and a proposed apprenticeship within Housing Management during 21/22. Use of local suppliers within procurement rules (and where appropriate): for lower value contracts, use of local suppliers is guaranteed; for higher value contracts, on occasions where local supplier does not offer the required expertise and value for money, successful contractors must explicitly evidence social value in contract submissions.

3. The Council Housing response to the Climate Emergency

- 3.1. In response to the ongoing climate emergency, and the commitments set out by the Council in response, the Council Housing service has developed programmes of significant investment and activity in a number of areas. All of these areas of investment are built into the business planning and budgeting as outlined in this report.
- 3.2. **Energy Performance Certificate (EPC) Band C Housing Stock:** Lancaster City Council has embarked on a 10-year programme of energy efficiency improvements and performance upgrades across all its Council Housing stock. The goal of this project is to raise the energy performance certification of all Council Housing to a minimum 'C' rating. Currently, 75% the Council Housing are rated at 'C' rating or better. The programme will focus on energy improvement work on 800 properties with lower ratings and ensure all properties meet new minimum standard. Additionally, seek all opportunities, to achieve higher ratings and drive cost savings and quality outcomes through economies of scale and development of sustainable

retrofitting techniques. An additional £2.6M is included within the Capital Programme to deliver this (as per 7.4 - below).

- 3.3. **Void property, energy retrofit improvements:** Lancaster City Council has an on-going programme of whole house improvements and energy efficiency upgrades to existing Council Housing properties. Selected properties are surveyed by our technical team and full renovation specified, including retrofit performance improvements, air tightness, and improved insulation. Increasingly, our planned maintenance team undertakes the refurbishment, developing experience and retrofitting techniques to improve our Council Housing stock.
- 3.4. **Funding:** bidding as a Regional Consortium for the £253K LAD1b Green Homes grant funding to undertake energy improvement works – targeting 40 properties with the lowest EPC ratings. The Team will seek to bid for other funding as and when opportunities present themselves, including LAD2 funding, where details have recently been released.
- 3.5. **Mount Avenue:** Lancaster City Council Housing has planned an ambitious investment of whole house improvements and energy efficiency upgrades at Mount Avenue, Beaumont Estate, Skerton. The project will be completed over 3 years and will see the renovation of 66 dwellings. Homes will benefit from building fabric improvements and repairs, and upgrading the interiors and finishes, including kitchens and bathroom upgrades. The properties will be made more thermally efficient through a menu of energy saving improvements including heating systems, windows and doors, dry lining and increased insulation.
- 3.6. **Loft insulation:** The standard of loft insulation is checked on all void properties and on all new roofing installations and all properties brought up to at least 300mm as required.
- 3.7. **Solar panel installations:** We are undertaking an estate wide installation of solar panels targeting suitable independent living schemes, directly benefiting a group of elderly and vulnerable tenants, addressing fuel poverty and reducing carbon emissions. The selection of sheltered properties also negates Right-To-Buy issues and the density and type of roofs helps economical maintenance. All new house conversions are assessed for solar panel installations as part of our commitment to reducing reliance on gas heating and incorporating a renewable component in the design.
- 3.8. **Gas Partnership, boiler replacement programme:** We have increased funding and accelerated the rate at which we fit new boilers and central heating systems, reducing CO2 by replacing time expired systems with energy efficient systems. This reduces CO2 and improves thermal comfort and control.
- 3.9. **Energy Support Officer:** Lancaster City Council appointed an Energy Support Officer, to support Tenants contribute towards the Council's approach to the Climate Change Emergency deliver our climate change ambitions. The new role provides a tenant focused energy advice service to tenants, promoting energy efficiency, carbon free energy, and ensuring Council tenants are sign-posted to a range of energy related (financial and advisory) initiatives. Additionally, to help

deliver our energy efficiency programmes.

- 3.10. **Electric Vehicle Charging Points:** A HRA contribution will enable the installation of three electric vehicle charging points on Council Housing land, for use by council staff, and for wider public use through the Charge My Street network.
- 3.11. **Property conversions/new properties (outlined in Appendix E):** Maximisation of energy efficiency a key consideration. It is intended to investigate, where possible, construction with highly insulated materials and including elements such as solar PV, air source heat pumps, waste-water heat recovery etc.

4. Rent Setting

- 4.1. From 2020/21 the Rent Standard within the Social Housing Regulations applies to all Local Authorities. In previous years, the Council has adhered to this aspect of the regulations voluntarily, as a matter of good practice, and as such our approach to rent setting remains largely unchanged.
- 4.2. The financial year 2021/22 is the second of five years where the Council has the freedom to increase rent by a maximum of CPI+1% (CPI is the Consumer Price Index). For rent setting purposes for 2021/22, the September 2020 CPI figure of 0.5% is used, with forecast CPI used thereafter.
- 4.3. The maximum increase of CPI+1% remains consistent with Government guidance referred to, and the advice provided to Cabinet, within the HRA Budget Report approved in February 2019.
- 4.4. It remains the case that where properties become vacant and their rents are below 'formula rent' the rents to be charged for new tenancies can increase up to the formula rent level².
- 4.5. All Council rents are 'social rent', and sit below the Local Housing Allowance (LHA) rate; this rate defines the maximum amount that can be paid in Housing Benefit (HB) or through the housing element of Universal Credit (UC)³. We estimate that around 75-80% of tenants are in receipt of some form of HB or UC⁴.
- 4.6. Rental income is the main funding source for the HRA and there are factors that will influence the outturn position:
 - Void levels and re-let times (equating to void rent loss/uncollectable rent)⁵
 - Right to Buy (decrease in housing stock); as at Quarter 3 a total of 11 Right-To-Buy completions have taken place in 2020/21. Estimates assume 20 completions per year in future years.

2 Formula rent for a property is calculated based on relative property values, relative local earnings, and property size (no. of bedrooms), in line with annual guidance produced by the Social Housing Regulator.

3 It is estimated that around 80% of tenants are in receipt of full or partial HB or UC – due to the housing element being paid direct it is not fully clear the exact number – however, prior to the introduction of UC 80% of tenants were supported by HB to pay their rent.

⁴ It is hard to get an actual figure: tenants who claim Universal Credit (UC) and pay their own rent do not always have cause to inform the council of having made a UC claim.

⁵ Void levels have been low during 20/21 due to the coronavirus pandemic (40% down on previous year) however restrictions have caused significant delays in re-letting and increased void rent loss.

Note: Refer to Appendix G for further details about risk factors.

- 4.7. Therefore, in line with government policy Cabinet is now advised to set average council rents as follows⁶:-

Property Type	2020/21	2021/22
General	£73.54	£74.87
Sheltered and Supported	£68.64	£70.00

5. Other Charges

- 5.1. A general principal is applied to service charges to ensure they are sufficient to cover the cost of service provision, and that they are reasonable and transparent. Service charges are increased each year using a range of inflationary factors: e.g. General Inflationary Index, Building Cost Information Service (BCIS), Gas, and Electricity, and costs of service provision are reviewed periodically. A full review of these costs has taken place during 2020/21.
- 5.2. As per the Social Housing Regulations the Council should “endeavour to keep increases for service charges within the limit on rent changes of CPI+1%.”⁷ However, it is recognised that service charges fluctuate significantly from year to year and that the requirement to contain increases within CPI+1% should be interpreted on a medium- or long-term basis⁸.
- 5.3. For 2021/22 across all housing stock service charges will reduce by 1.2%. This reflects 0% inflation in some areas, and reduced running costs achieved by the housing service in other areas, which have been passed on to tenants. The main variance in service charges is between General Needs (1.7% increase⁹) and Sheltered Housing (-2.2% decrease¹⁰). .
- 5.4. It is estimated that around 75-80% of council tenants are in receipt of either HB or UC. Most service chargeable elements are HB/UC eligible; the exceptions being individual heating costs, and the monitoring of alarms within sheltered housing or

⁶ Note that the above figures are presented on a 52-week basis.

Note: Specific rents vary depending on property type / area / size: for general needs between £54.22 (for a bedsit at Mainway) and £110.61 (for a 4-bedroom house in Bolton-le-Sands), and for sheltered housing between £56.27 for a bedsit at Beck View and £90.30 for a two bed flat at Artlebeck Close.

⁷ Source: Policy statement on rents for social housing - Feb 2019

⁸ Source: National Housing Federation Briefing on Rent Standard 2020 - Jan 2020

⁹ The increase in General Needs charges is largely caused by an increase in cleaning costs on the Mainway Estate: cleaning charge was capped at £1.70 in 20/21 upon introduction of new cleaning service, to cushion the impact on tenants. This element increases to £2.36 for 21/22 to recover true cost of service.

¹⁰ Within Sheltered Housing, the elements of service charge equated to staff resources has been equalised across all schemes, in contrast to previous scheme by scheme apportionment of costs which has in previous years disproportionately impacted residents in smaller schemes. This has resulted in some year-on-year variation in service charge for some residents, but is seen as a fairer way of proportioning costs for services residents receive.

community alarmed properties.

- 5.5. With regard to garage rents, in January 2017 Cabinet established a rent setting policy for garages within the HRA: "That for 2017/18, all garage rents be increased by the Consumer Price Index (CPI) plus £1, with an additional CPI + £1 increase in each subsequent year until 2019/20, with CPI increase thereafter."
- 5.6. Garage rents were subject to a freeze for 2020/21 and following review during 2020/21 it is recommended that they be subject to a further freeze for 2021/22. Garage take-up and value for money of garage rents will be reviewed again during 2021/22.

6. Revenue Expenditure

- 6.1. The 2020/21 revised estimates and the future years estimates for 2021/22 alongside the following three financial years have been prepared as part of this budget setting process. The differences between the budget approved last year and the draft revenue budget as prepared are illustrated in the variance analysis supplied at Appendix B.
- 6.2. The key areas are listed as follows: -
 - Due to the pandemic, empty property re-let times have increased, resulting in void rent loss of around £145K over and above that budgeted for 2020/21. For 2021/22, a return close to pre-pandemic levels has been assumed
 - Due to fluctuations in CPI, 2021/22 rental income from dwellings is now forecast to be approximately £224K lower than previously estimated in the previous budget report
 - Salary savings from carrying vacancies during the pandemic have been made in both Housing Management and Repairs & Maintenance
 - In line with the Government announcement, a pay freeze for all employees earning over £24,000 has been applied in the 2021/22 estimate, the previous estimate included a pay award of 3% across the board
 - Repairs and Maintenance increase in 2021/22 is due to one-off planned maintenance projects, including additional expenditure in response to the climate emergency
 - Premises insurance increases relating to the premium for council house properties
 - Expenditure of £62K relating to development consultancy and consultation fees in connection with the ongoing review of the Mainway estate, funded by the Business Support Reserve
 - Delayed expenditure relating to the replacement of housing management software, funded by the ICT & Systems Improvement Reserve
 - Planned capital expenditure has reduced by £787K in 2020/21 and increased by £576K in 2021/22, resulting in changes to the funding required from the Major Repairs Reserve. From 2021/22, the capital programme includes £2.6M for energy efficiency improvements, as detailed in 3.2.
- 6.3. In summation, the 2020/21 revenue budget projected surplus is £476K, which is a reversal of the previously projected funding requirement of £88K, which was to be funded from unallocated balances.

- 6.4. The 2021/22 revenue budget projected funding requirement is £1,000K (prior to the approval of savings and budget proposals). This is £770K higher than the previously projected £230K, and again this will be funded by unallocated balances. The revised projection is due to the points described above (6.2), notably:
- Decreased rental income due to lower than projected CPI figure
 - Additional one-off planned maintenance projects in 2021/22
 - Additional energy efficiency works during 2021/22 in response to the climate emergency
- 6.5. This should be considered in the light of significant underspends on the capital programme in 2019/20 and 2020/21, which along with higher than anticipated capital receipts and increases in capital charges, will result in a reduction of £1,821K in the total of the two years' additional contributions to the Major Repairs Reserve (2019/20 £1,099K, 2020/21 £722K).
- 6.6. Should all additional resource requirements items be approved then there will be an additional funding requirement in both 2021/22 and 2022/23 which can be managed by the short-term use of the unallocated reserve. This management of the fund would see surpluses generated in the years thereafter (see Appendix A).
- 6.7. Fourteen Independent schemes within Council Stock are currently operating on analogue alarm and monitoring equipment provided by Tunstall. This equipment is reaching the end of its life, necessitating a programme of upgrade across all schemes to the latest intelligent digital equipment. The total cost of this project across all schemes is estimated at £390,000, funded from the Sheltered Support Grant Reserve; this reserve exists for the sole purpose of scheme equipment replacement. The programme of upgrade will take place over the next two years.

7. Capital Expenditure

- 7.1. The revised and five-year capital programme is included at Appendix C.
- 7.2. The key changes to the programme from last year's reported position are included at Appendix D.
- 7.3. The capital programme includes no provision for any major refurbishment works on the Mainway estate.
- 7.4. Further to this, it is worth noting the following:-
- The kitchen replacement programme has been slipped by 12 months, to minimise works carried out inside tenanted properties during the pandemic
 - Within energy efficiency, an increase of £2.6M over nine years to make improvements to bring all properties with a SAP rating of 'D' to 'G' up to a minimum standard of 'C', as detailed in 3.2.

8. Additional Budget Proposals

- 8.1. Alongside setting council housing rents, Cabinet is also requested to make recommendations regarding budget proposals for consideration by Council.

Through the business planning process, the following budget proposals within the HRA have been identified.

Additional budget proposals	2021/22 £	2022/23 £	2023/24 £	2024/25 £
King Street shop unit – Ideal Choice Homes customer facing office	10,000	10,000	10,000	10,000
Additional salary resource for Ideal Choice Homes	12,800	13,400	17,900	18,200
Property Conversions	0	(11,700)	(20,300)	(24,100)
Total of all budget proposals	22,800	11,700	7,600	4,100

8.2. Please see attached Appendix E which details and discusses individual budget proposals.

9. Mainway project

- 9.1. The Mainway project is a significant, Housing-led project with the potential to transform the Mainway estate in Lancaster. A comprehensive consultation with residents took place in 2020/21.
- 9.2. Cabinet will be asked in March 2021 to consider significant proposals in relation to the project. Depending on decisions made by Cabinet, it is anticipated that it may be necessary to draw on the Business Support Reserve to fund project related costs during 2021/22 such as for additional staffing requirements and design costs, etc.... These costs could include, for example, architectural and design costs; project costs such as staffing resources and resident consultation; and other feasibility costs.
- 9.3. None of these costs are included in this report, pending consideration of the separate Mainway report at March Cabinet, 2021.
- 9.4. In addition, no major capital works in relation to Mainway are included in this report. Cyclical maintenance costs within dwellings continue to be included in the current budgeting process.

10. Provisions, Reserves and Balances

- 10.1. After reviewing the Housing Revenue Account and General Fund in comparative terms and considering the key issues, assumptions and risks underlying the budget projections, the Section 151 Officer advises maintaining the minimum level of HRA Balances at £500K from 01 April 2021 to support the budget forecasts, as part of the overall medium term financial planning for the HRA.
- 10.2. Draft statements on all reserves are attached at Appendix F(i) and Appendix F(ii). Levels are viewed as adequate for the period covered and Cabinet is asked to endorse this information, with the Statement being referred on to council as part of the HRA budget proposals.

11. Business Planning & Future Risks

11.1. Taking account of the work that has been done to date, the following table sets out the latest position for the business plan, represented by the level of unallocated balances and the Business Support Reserve (BSR). It compares the position back in February 2020 to projections as at February this year.

30 Year Business Plan: Business Support Reserve and Unallocated Balances

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	30 Year Cumulative Total £'000
Business Support Reserve	8,080	8,080	8,080	8,080	8,080	8,080
Unallocated Balances	1,964	1,990	2,292	3,008	3,889	15,964
Projections as at February 2020	10,044	10,070	10,372	11,088	11,969	24,044
Business Support Reserve	7,757	7,721	7,718	7,716	7,716	7,716
Unallocated Balances	3,335	2,335	1,844	1,863	2,102	11,947
Projections as at February 2021	11,092	10,056	9,562	9,579	9,818	19,663
Overall Movement (Adverse) / Favourable	1,048	(14)	(810)	(1,509)	(2,151)	(4,381)

11.2. The unallocated balance is currently £2.9M and at no point within the 30-year business plan does it breach the £500K lower limit as detailed in section 10.1.

11.3. The Business Support Reserve has a current unallocated balance of £8.1M. There is no further call on the reserve at this juncture for the remainder of the 30-year business plan with the exception of the aforementioned growth and the possibility of its use to supplement the Mainway project.

11.4. The drop in the projected balance at the end of the 30-year business plan is largely due to the inflation assumptions used in the setting of rents. As previously discussed, rents have been set at CPI+1% for five years, and it has been assumed that increases will revert to CPI only from 2025/26. The risks surrounding this assumption must be appreciated and the magnitude of impact of a small change within this area.

11.5. Should the growth items in section 8 be approved then the combined level of reserves will be reduced to £19.1M by the end of the 30-year business plan.

11.6. The Section 151 Officer is required to undertake a formal review of general reserve levels. In assessing the adequacy of such balances, the Head of Financial Services takes account of the strategic, operational and financial risks facing the authority. The effectiveness of internal financial and other controls are also taken into

account; assurance on these can be taken from the respective formal Statements and external assessments. Consideration has also been given to the specific risks and assumptions underlying the HRA as set out in **Appendix G**.

12. Options and Options Analysis (including risk assessment)

- 12.1. The options with regards to rent setting are set out under section 3, the maximum permitted increase being CPI+1%. By applying this increase, it allows for a budget that can deliver on the Council's ambitions on improving housing standards and addressing the climate change emergency, whilst adhering to the Rent Standard and legislative requirements.
- 12.2. In relation to garage rents, the previous decision was to freeze rents for 2020/21. Occupancy levels suggest a further freeze for a 12-month period in order to protect the current income levels achieved is required. Garage rents and occupancy will be reviewed fully during 2021/22, but current assumptions involve reverting to a CPI increase thereafter.
- 12.3. With regard to the revenue budget generally, Cabinet could consider other proposals that may influence spending in current and future years, as long as their financing is considered and addressed.
- 12.4. The options available in respect of the minimum level of HRA balances are to retain the level at £500,000 in line with the advice of the Section 151 Officer, or adopt a different level. Should Members choose not to accept the advice on the level of balances, then this should be recorded formally in the minutes of the meeting and it could have implications for the Council's financial standing, as assessed by its external auditor.
- 12.5. With regards to the additional budget proposals as set out in section 8 of the report, Cabinet should consider the costs and benefits of the proposals and whether they are affordable, in particular, over the medium to longer term.

The options available in respect of the Capital Programme are:

- i) To approve the programme in full, with the financing as set out;
 - ii) To incorporate other increases or reductions to the programme, with appropriate sources of funding being identified.
- 12.6 Any risks attached to the above would depend on measures Members proposed, and their impact on the council housing service and its tenants. As such, a full options analysis could only be undertaken once any alternative proposals are known, and Officers may require more time in order to do this.

Option 1: Set housing and garage rent levels as set out in this report and approve the provisions, reserves and balances position (and their use); the revenue budgets and capital programme; and the additional budget proposals as set out

Advantages: Increased rental income allows the Council to deliver towards its climate ambitions and provide an ambitious housing service which places people and place at the heart of its offer.

Disadvantages: Increased rent levels for tenants.
Risks: The HRA budget set out in this report is sustainable in the long term. The risk associated with Option 1 relates to any future Mainway project (as referred to in section 9, above) and any borrowing or use of reserves in relation to this.
Option 2: Set housing and garage rent levels as detailed in this report and approve the provisions, reserves and balances position (and their use) as set out, and the revenue budgets and capital programme, but allowing for Cabinet's recommendations regarding specific additional budget proposals.
Advantages: Increased rental income allows the council to deliver towards its ambitions. Non-approval of additional budget proposals would lead to greater HRA surpluses over the life of the 30-year business plan.
Disadvantages: Non-approval of additional budget proposals would cause a scaling back of ambitions.
Risks: Inability to maximise service provision and deliver on Council, and housing related ambitions.
Option 3: To propose alternatives to those outlined in Section 11 above.
Advantages: Unknown
Disadvantages: Would require further options analysis
Risks: Impact on housing service and council housing tenants unknown.

13 Officer Preferred Option (and comments)

Option 1: Set housing and garage rent levels as set out in this report and approve the provisions, reserves and balances position (and their use); the revenue budgets and capital programme; and all additional budget proposals as set out