

**Housing Revenue Account
Budget Framework 2024 to 2029
28 February 2024**

Report of Cabinet

PURPOSE OF REPORT

To present Cabinet's final budget proposals in relation to the Housing Revenue Account in order that the City Council can complete its budget setting for 2024/25 and update its financial strategy to 2029.

This report is public.

RECOMMENDATIONS:

- (1) That Cabinet's recommendation to approve the council housing rent levels for 2024/25, as set in accordance with statutory requirements, be noted.
- (2) That the Housing Revenue Account budgets and future years' projections be approved, as set out in *Appendix A*.
- (3) That the Council Housing Capital Programme be approved, as set out in *Appendix B*.
- (4) That the minimum level of HRA unallocated balances be retained at £750,000 from 01 April 2024, and that the full Statement on Reserves and Balances as set out at *Appendix C* be approved.
- (5) That Council notes the Section 151 Officer's advice regarding robustness of budget estimates, the adequacy of reserves and balances and the affordability of borrowing.

1 Introduction

- 1.1 Following its meeting on 20 February, Cabinet has now finalised its budget framework proposals for the Housing Revenue Account (HRA). These are all now reflected in the recommendations of this report.

2 Rent Policy and 30-Year Business Plan Impact

- 2.1 The Council has a legal requirement 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.

- 2.2 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.
- 2.3 The financial year 2024/25 was to be the fifth of five years where the Council had the freedom to increase rent by a maximum of CPI+1% (CPI is the Consumer Price Index). For rent setting purposes for 2024/25, the September 2023 CPI figure of 6.7% is used, with forecast CPI of 2.0% used thereafter (being the target set by Government for the Bank of England's Monetary Policy Committee).
- 2.4 Taking the above points into account, the Council's current rent policy is summarised as follows:

For general properties, average rent of £90.93 applies for 2024/25 ¹	For sheltered and supported properties, average rent of £86.07 applies for 2024/25
Following relevant properties becoming vacant, they will be re-let at 'formula rent' in line with previously approved policy.	
<u>For 2025/26 onwards</u> , it is assumed that council housing rents will increase by 2.0% year on year, subject to annual review of inflation forecasts, and any future determinations that may be issued by Government from time to time.	

- 2.5 The 30-year business plan has been updated to cover the period to 2053/54, and the updated position over the life of the plan is a cumulative surplus of £43.8M.
- 2.6 It should be noted that the annual self-financing repayment of £1.041M ends from 31 March 2042.
- 2.7 It should be reinforced that the cumulative balance is primarily driven by Government's decisions on future rent policy. For simplicity, the business plan now assumes that rents will continue to increase by CPI of 2.0% (being the target set by Government for the Bank of England's Monetary Policy Committee) per year, but this is by no means certain. The risks surrounding this assumption must be appreciated.

3 Revenue Budget

- 3.1 The HRA revenue budget statement is attached at **Appendix A**.
- 3.2 Key achievements:
- 2023/24 has seen continued guidance and support to tenants around rent arrears prevention and management. Following record low current rent arrears figures in

¹ This remains below Local Housing Allowance figures for both general and independent living and supported properties.

recent year, 2023/24 is expected to show an arrears increase of around 10% at year end, linked to cost of living challenges faced by tenants. This figure does still represent top quartile performance nationally.

- The Income Management Team continue to provide a support service to tenants in managing their rent arrears and other finances, however, where appropriate, legal remedies are used: a total of 19 court applications were made in response to tenant rent arrears, with 3 of these progressing to warrant/eviction stage.
- In supporting residents the Housing Team have helped secure an additional £61,600 for tenants through their benefit and other income maximisation work to date this year. In recognition of their work the Income Management Team also re-achieved HQN Maximising Income and Sustaining Tenancies accreditation. The team also presented at the Mobyssoft annual conference as a provider of best practice and high performance across the sector.
- A Tenancy Health Check was carried out for all new tenancies during 2023/24, to identify any risk factors to the success of the tenancy and identify and embed any early support needed.
- New furniture packages were provided to 85 households through the team's partnership with an external furniture package supplier, further promoting the creation of 'homes' rather than 'houses' and contributing to improved tenancy success.
- Following a full review of ASB service delivery a new Community Safety Team was created to deliver a proactive, visible, and harm and risk focussed ASB and Community Safety service. This included development of new ASB, Hate Crime and Domestic Violence Policies: due for publication in Quarter 4.
- Purchase of the Skerton High School site from Lancashire County Council as part of the wider redevelopment of Mainway, Lancaster.
- Planning permission for the site to be submitted as part of the wider redevelopment plans of Mainway.
- Team have secured funding through Brownfield Land Release Fund to support progress of demolition of former Skerton High School as part of wider Mainway Regeneration Plans
- Shortlisted for Landlord of the Year and Local Authority of the Year at North West Energy Efficiency Awards 2024.
- Delivery of free communal Wi-Fi in Ind. Living Schemes
- Introduced Council Housing Advisory Group comprising, Officers, Members, residents and third sector interested parties providing degree of governance, oversight and advice on the delivery of housing services.
- Secured £692,000 from Social Housing Decarbonisation Funding.
- Completion of exemplar A rated adapted property on The Greaves
- Quarter 3 saw the start on site of a new four bed modern energy efficient scheme at Alder Grove for older residents, including a new community provision for residents of the wider scheme.
- Development of a Climate Strategy specifically for Council Housing dwellings, due to be finalised by the end of March 2024.
- Significant planned maintenance works including 150 kitchen replacement completions by year end; completion of fencing programme at Higher Heysham; full replacement of railings and concrete walkways at Arcon House; re-roofing programme on Ryelands, smoke alarm installations on Vale and commencing at Caton, Halton and rural areas.
- Continued commitment to ensuring homes and services across Council Housing are safe with ongoing improvement and strengthening of property compliance. Over £1M invested in safety improvements works, include new fire doors, smoke seals and compartmentation works.

- First Tenant Satisfaction Measures (TSM) survey carried out in line with new tenant focussed approach to regulation from the Regulator of Social Housing (RSH). Satisfaction report and action plan to be published during Quarter 4.
- Development of new Tenant Voice Strategy: for publication during Quarter 4.

3.3 Looking ahead - key examples of ongoing service delivery and future planning developed in line with the Corporate Plan, Council priorities and forthcoming social housing legislation and regulation can be found within the Cabinet report of 20th February 2024.

4 The Council Housing response to the Climate Emergency

4.1 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 which can be seen within the Cabinet Report of 20th February 2024. All of these areas of investment are built into the business planning and budgeting as outlined in this report.

5 Capital Programme

5.1 The proposed Council Housing capital programme is included at **Appendix B**.

5.2 Future years' programmes are set in line with the HRA Business Plan wherever possible. Drawing on this, the draft programme should enable current housing stock to be maintained to the appropriate standards, meeting the Council's obligations under Decent Homes, and compliance with any other statutory regulations.

5.3 The Housing Team are in the final stages of completing a full stock condition survey of council dwellings, therefore capital expenditure for the forthcoming year is restricted to the most essential as it is expected that the results from the surveys will help inform future capital spend.

5.4 The 2024/25 capital programme includes no provision for any major refurbishment works on the Mainway Estate due to the ongoing regeneration project (see section 6).

5.5 Taking account of the above points, the total draft ten-year programme for 2024/25 onwards now stands at £41.1M, the majority of which will be financed from revenue sources. There is no prudential borrowing requirement.

6 Future Developments

6.1 The City Council continues to have ambitions for the development of its own new affordable / social rented homes, which it is seeking to progress. The focus for the next twelve months will see:

6.2 Mainway Masterplan:

- In 2023/24 we acquired Skerton High School and demolition operations began in January. The 2024/25 plan will progress detailed design, secure borrowing arrangements through a treasury settlement, procurement, and award of contract set to begin in autumn 2024, targeting first occupation by Spring 2026.
- Skerton High School phases 1a and 1b will initiate subsequent Mainway Masterplan phases. An application for supporting grant funding from BFLR, is underway. Progression of the project past planning and incorporation into the 2024/25 capital budget will be subject to a further Cabinet decision and approval.

6.3 Canal Quarter:

- Work continues to progress the Council Housing scheme on the site of St Leonards Gate car park. The goal is a full planning application by June 2024, in alignment with Canal Quarter Masterplan objectives.
- Design work progresses notwithstanding the challenges of inner-city development and achieving sustainability. Funding is secured in the current capital budget up to RIBA stage 3, with further budget decisions and progression of a development plan subject to a future Cabinet report later.

6.4 Garages:

- Work to advance Council Housing schemes on existing garage sites continues. A Project at Hastings Road is most advanced targeting the first construction-ready project by year-end, with various other sites across the district supporting a pipeline of viable sites for continued review in 2024/25. A funding bid has been submitted within the current capital budget review to continue this work.

6.5 For clarity, no major capital works in relation to garage site conversions, Mainway or Canal Quarter are included in this report.

6.6 While the design phase of the schemes continues, and while no decision has been made, the potential need to decommission all properties on Mainway has now been factored into the estimates presented, over a five-year period, with no rental income being recognised for any existing units from July 2029.

7 Provisions, Reserves and Balances

7.1 A formal review of the HRA's Balances, Reserves and Provisions has been undertaken, the outcome of which is reflected in **Appendix C**.

7.2 In terms of Balances, 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 £0.750M from 01 April 2024 to support the budget forecasts, as part of the overall medium term financial planning for the HRA.

7.3 As at 31 March 2024, HRA Balances are forecast to be £0.750M.

7.4 All other surplus resources are held in the Business Support Reserve. As at 31 March 2024, around £0.035M is expected to be available in this reserve. This will be relied upon to support revenue spend in the medium term (currently 2029/30).

8 Details of Consultation

8.1 The Tenant Voice group were consulted on 1 February at their bi-monthly meeting, where budget headlines, including the proposed rent increase and significant areas of spend and investment, were presented by the Neighbourhood and Support Services Manager.

8.2 The Tenant Voice expressed their concern about the impact of the rent increase on tenants but understood and agreed that this was appropriate in order for continued delivery of services and future ambitions. They endorsed the rent setting proposal and other key areas within the budget.

8.3 The budget has also been presented to the Council Housing Advisory Group comprising Cabinet Members, tenants and partner agencies.

9 Options and Options Analysis (including risk assessment)

9.1 Council may adjust its HRA revenue budget proposals, as long as the overall budget for 2024/25 balances and fits with its approved rent levels, which Council cannot change.

9.2 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 which still meet the required health and safety obligations to tenants.

9.3 The options available in respect of the minimum level of HRA balances are to retain the level at £0.750M 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, 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.

9.4 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: To note Cabinet's recommendation to approve the council housing rent levels for 2024/25; to approve the revenue budgets and capital programme, and the provisions, reserves and balances position (and their use), as set out; to note the Section 151 Officer's advice.

Advantages: Completion of the Housing Revenue Account's budget setting process for 2024/25, allowing the updating of the Council's associated financial strategy.

Disadvantages: None.

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 Capital new-build projects (as referred to in section 6, above) and any borrowing or use of reserves in relation to this.

Option 2: To note Cabinet's recommendation to approve the council housing rent levels for 2024/25 but to propose alternatives to those outlined in Section 9 above, noting the following:

Council may adjust its HRA revenue budget proposals, as long as the overall budget for 2024/25 balances and fits with its approved rent levels, which Council cannot change.

Council may adjust its capital investment and financing proposals taking account of spending commitments and priorities, but its proposals for 2024/25 must balance.

Advantages: None.

Disadvantages: Depending on the nature of any alternative proposals put forward, Officers may need time to assess the risks and implications. This is to ensure that relevant considerations are taken into account, to support informed and lawful decision-making.

Risks: Delay to the completion of the Housing Revenue Account's budget setting process for 2024/25. Inability to maximise service provision and deliver on Council, and housing related ambitions. Impact on housing service and council housing tenants unknown, but could impact on the health and safety of tenants.

10 Conclusion

- 10.1 This report provides an update on the council housing budgetary position and seeks Council's approval of Cabinet's budget proposals in relation to the Housing Revenue Account in order that the City Council can complete its budget setting for 2024/25 and update its financial strategy to 2029.

RELATIONSHIP TO POLICY FRAMEWORK

The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability etc)

No additional impact identified – any specific issues have been (or will be) considered as part of the relevant aspect of the policy framework or individual budget proposals, etc. Where appropriate, equality impact assessments have been produced and are available in connection with Cabinet's specific budget proposals.

LEGAL IMPLICATIONS

Legal Services have been consulted and are content with the report but will consider further the development and implementation of relevant budget proposals in due course to ensure legal aspects are fully considered.

FINANCIAL IMPLICATIONS

As set out in the report.

OTHER RESOURCE IMPLICATIONS

Human Resources / Information Services / Property / Open Spaces:

Various budget proposals have resource implications and these have been taken account of in Cabinet's consideration of budget options as far as possible at this stage. Their implementation would be in accordance with council policies and procedures, as appropriate. Furthermore, it is recognised that additional resource needs may be required and

arrangements are in hand to assess and address these.

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. Previous Cabinet reports have already included some relevant details of this advice, together with the risks and assumptions underpinning the budget process so far.

Provisions, Reserves and Balances

- Specific HRA earmarked reserves and provisions are satisfactory at the levels currently proposed.
- An unallocated minimum balance of £0.750M 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 Business 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 Business 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 (and should be) 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 Deputy Monitoring Officer reminds Council that the decisions (recommendations 1 and 2) fall within the Local Authorities (Standing Orders) (Amendment) (England) 2014 and Rule 19.7 of the Council Procedure Rules, and accordingly a recorded vote should be taken.

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

BACKGROUND PAPERS

Equality Impact Assessments for budget proposals.

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