

## Lancaster City Council | Report Cover Sheet

<b>Meeting</b>	Cabinet	<b>Date</b>	8 <sup>th</sup> February 2022		
<b>Title</b>	Housing Revenue Account and Capital Programme				
<b>Report of</b>	Director for Communities and the Environment				
<b>Purpose of Report</b>					
To seek Cabinet decisions on Council Housing rent setting proposals and HRA revenue and capital budget proposals.					
<b>Key Decision (Y/N)</b>	<b>Y</b>	<b>Date of Notice</b>	<b>10.1.22</b>	<b>Exempt (Y/N)</b>	<b>N</b>

### Report Summary

This report provides an update on the council housing budgetary position and seeks Cabinet's decisions on council housing rent levels for 2022/23 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 2022/23.

### Recommendations of Councillor Matthews

- 1) That the Housing Revenue Account Revised Budget for 2022/23, 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 2022, 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 2022, average rent be set at £78.24 for 2022/23;
  - for sheltered and supported housing properties let as at 01 April 2022, average rent be set at £73.49 for 2022/23;
  - 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, and in line with benchmarking across the sector.
- 5) That a delegated decision to approve the tender of 6 programmes of work (over £200k and key decisions over £250k) during 2022/23 can be made by the Chief Executive (as per 7.4 below) and in line with procurement rules.

- 6) 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.
- 7) That subject to the above, the resulting Housing Revenue Account budget for 2022/23 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.
- 8) To approve the redirection of funds within the 2021/22 HRA Capital Programme, as described in 7.3 (below).

### **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**

<b>Climate:</b> 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.	<b>Wellbeing &amp; Social Value:</b> positive impacts identified via additional budget proposals. See appendix E for details
<b>Digital</b>	<b>Health &amp; Safety</b>
<b>Equality:</b> No significant detrimental impact on specific groups. See Appendix H – Equality Impact Assessment	<b>Community Safety</b>

### **Details of Consultation**

A meeting was held with tenants from the District Wide Tenants' Forum on 27<sup>th</sup> January 2022, where the Neighbourhood and Support Services manager presented the contents of this report and answered questions.

The 4.1% rent increase was noted by tenants in the context of rising cost of living costs. A discussion took place around affordability for tenants. Explanation was provided as to how the increase translates into improved service delivery in the coming years. It was noted that financial and other support for tenants is a central part of housing service delivery and will only increase in view of current challenges.

The group were in agreement around the importance of significant spend in the coming years in certain key areas – particularly the energy efficiency works built into the capital programme, and building compliance.

The additional budget proposals (8.1, below) were all viewed as positive, resident focussed additions to service delivery.

In conclusion, the group were supportive of the proposals outlined in this budget report.

### **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.

Legal Services will provide any contractual advice for the works detailed in this report.

### **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, Page 92 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 2021/22**

### **2.1. Key achievements:**

- 2021/22 has seen continued guidance and support to tenants around rent arrears prevention and management. Having ended 2020/21 with record low current tenant arrears of £113k the team continue to perform at the highest level with arrears at the end of Q3 of £137k: a reduction of 23% on the same week in the previous year.
- Rent arrears success has been achieved with a supportive, pro-active approach, with almost no recourse to legal action. No new housing possession applications have been made since March 2020 and as at Q3 2021/22 only one warrant application has been made.
- In September the Income Management Team were awarded Best Service Team: Construction and Building Services from the Association of Public Sector Excellence (APSE) for this approach. The team were also shortlisted for Team of the Year in the Chartered Institute of Housing Northern Awards and achieved accreditation from the Housing Quality Network (HQN) in the category of MIST – Maximising Income, Sustaining Tenancies.

- In conjunction with other work across the Housing Service the service also won Council of the Year at the North West Energy Efficiency Awards 2021.
- Tenancy success activities continue to be developed, including property condition flags and tenancy and post allocation visits to identify tenants in need of support, tenancy health checks for all new tenants, and a service-wide 'eyes wide open' approach to promoting successful tenancies.
- Over 180 tenancy health checks have been completed up until the end of Q3, helping to support tenants in sustaining a new tenancy and realising an increase in tenant income of £124,000 through income and benefit maximisation work.
- In addition, service chargeable furniture packages for new tenants were introduced during Q2. As at Q3, fifty-one Universal Credit and Housing Benefit eligible packages have been taken up.
- In opening the King Street One-Stop-Shop and continuing to run the Mainway Hub the housing team were able to provide two face-to-face customer service options for tenants and residents.
- Two members of staff – a Stores Operative and a Customer Voice Officer - were successfully employed within the housing team through the government's kickstart programme, aimed at supporting individuals learn skills and gain experience along a path to long term sustainable employment.
- A newly recruited Energy Support Officer joined the housing team in September to support tenants with advice and guidance around all home energy related matters and in support of the climate agenda. During Q3 a total of 133 home visits were carried out, where advice and signposting was provided on a range of energy related topics including the warm home discount, affordable and green energy tariffs, and efficient use of household appliances.
- The project to deliver whole house improvements and energy upgrades to homes on Mount Avenue, Lancaster, was established and delivered a total of 19 refurbished homes during phase 1 in 2021. The project will be completed over three years and will deliver renovation of over 50 homes, including kitchen and bathroom upgrades and significant thermal efficiency measures.
- Conversion of a former shop in Galgate allowed the team to deliver the Council's first EPC A-rated home: a three bed, fully accessible energy efficient home including measures such as solar panels, air source heat pump and under floor heating, and high levels of insulation.
- Through the Neighbourhood Project fund a number of community projects have been funded, including a street youth work project on the Ridge (Street Speak) in partnership with Active Lancashire, Lancaster BID and Happy Healthy Holidays. More than 260 hours of face-to-face youth work was delivered.
- Approximately 10,500 responsive repairs (to year end) were carried out, and 300 vacant dwellings (voids) were refurbished to the lettable standard.
- We reduced the risk of spread of fire in rear gardens by removing composite (plastic) low maintenance fencing and replaced with traditional timber panels in response to fire events and identified risk. This led to recognition by Lancashire Fire and Rescue Service as a good practice approach taken and shared with other social housing providers.

2.2. The strategic direction of the housing service continues to be delivered in response to wider Council priorities and key legislative and regulatory guidance. These include the Social Housing Regulations and Housing Ombudsman, the Social Housing White Paper (which sets expectations for the future regulatory environment and places greater emphasis on tenant engagement and voice within service delivery) and the Building Safety Bill and Fire Safety Act (2021) - the legislative response to the Grenfell tragedy of 2017 which sets out the responsibilities and

requirements of landlords in relation to building safety and compliance.

2.3. Key strategic priorities for 2022/23 are:

Priority	
A sustainable district	<ul style="list-style-type: none"> <li>• Continued investment across the council's housing stock - see section 3 below.</li> <li>• Continued work towards improved energy efficiency within all homes by 2030 (all properties to meet minimum of EPC C standard).</li> <li>• Continued roll out of energy efficiency measures within homes.</li> </ul>
An inclusive and prosperous local economy	<ul style="list-style-type: none"> <li>• Provision of local 'Hub' (e.g. Branksome Estate): a base from which the local resident's group can develop activities and community led initiatives.</li> <li>• Local procurement of repairs (and other housing related) contracts.</li> <li>• Development of new build and property conversion programmes: utilising council land and assets to benefit communities e.g. Mainway project; conversion / build of 6 The Greaves; review of garage sites for potential development; Alder Grove expansion; proposed Extra Care accommodation scheme (in Beaumont).</li> <li>• Continued involvement in Kickstart employment scheme, providing 6-month work opportunities for young unemployed local residents and seek opportunities to promote housing career pathways to local young residents.</li> <li>• Creation and support of apprenticeships.</li> <li>• Use of local suppliers within procurement rules (and where appropriate): for lower value contracts, use of local suppliers is guaranteed; for higher value contacts, 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.</li> <li>• Seeking funds through government to invest in our stock.</li> </ul>
Healthy and Happy communities	<ul style="list-style-type: none"> <li>• Developing resident scrutiny groups and creating opportunities for residents to contribute to service development and the decision-making process. Including TPAS accreditation.</li> </ul>

	<ul style="list-style-type: none"> <li>• Delivering a ‘place-based’ approach to estate and neighbourhood work, facilitated through Tenancy Success and Financial Inclusion Strategies:</li> <li>• Facilitating (and funding) community specific, community led projects;</li> <li>• 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, Salt Ayre Leisure Centre); external partner agencies (police, fire service, community centres), and providing opportunities to access and involvement with arts, culture, leisure and recreation (including improved green space) etc.</li> <li>• Exploring opportunities for digital connectivity across the district</li> <li>• Review of ASB provision for residents</li> <li>• Dedicated Estate Stewards to keep estates clean</li> <li>• Provision of independent living</li> <li>• Tackling discrimination and reducing inequality (underlying principles of the Social Housing White Paper)</li> <li>• Supporting staff wellbeing.</li> </ul>
<p>A co-operative, kind and responsible council</p>	<ul style="list-style-type: none"> <li>• Investing and developing in staff</li> <li>• ‘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.</li> <li>• Working with and listening to resident groups about what’s important to them, whilst supporting and encouraging others to be established.</li> <li>• 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.</li> <li>• Developing resident scrutiny groups and creating opportunities for resident’s voices to be heard.</li> <li>• Provision of funds for tenants to access training, education opportunities.</li> </ul>

### 3. The Council Housing response to the Climate Emergency

- 3.1. Council Housing has continued its programme of carbon reduction, energy efficiency measures and upgrades during 2021/22.
- 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 by 2030, with currently 75% of the stock rated at 'C' or above. The programme will focus on energy improvement work on 800 properties with lower ratings and ensure all properties meet new minimum standards. Additionally, the service will 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 by 2030.

- 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. **Local Authority Delivery Scheme** The Council was successful in bidding for LAD1b funding to deliver energy improvements as part of a consortium headed by Blackpool Council, targeting our poorest performing properties with energy efficient measures for those who qualified. A subsequent LAD2 bid was unfortunately unsuccessful, however the work completed has provided valuable experience for our improvement measures moving forward as well as information for future energy bids.
- 3.5. **Mount Avenue:** The first phase of the Mount Avenue project has been completed, on time and in budget. Including the pilot and voids, 25 properties have now been fully refurbished and upgraded. Renovations include significant energy improvement measures, including insulation, air tightness and new energy efficient heating systems, achieving greater thermal retention and efficiency, and improved response and control. Tenant liaison and good management of the decanting process has made a significant contribution to the success of the project. Tenant feed-back has praised the project team, the standard of the new work, and thermal comfort, and a project in partnership with Lancaster University is underway to quantify the energy efficiency benefits to tenants.
- 3.6. **Loft Insulation:** The Energy Trust advises 25% of household energy is lost through roofs, underlying the importance of our loft insulation upgrade work. All opportunities are taken during void or roofing works to ensure all roofs are upgraded to meet or exceed the minimum standard of 300mm of insulation.
- 3.7. **Solar Panel Installations:** Programmes to expand the installation of PV panels to suitable independent living schemes continue. This focuses help on a vulnerable group of elderly tenants, supplementing energy costs and reducing carbon emissions. Concentrating installation reduces maintenance, manage performance and work closely with the tenant group, ensuring they make the best use of the savings available. Additionally, as an alternative to gas, for all new build proposals or conversions, we continue to exploit every opportunity to install PV as a renewable energy component.

- 3.8. **Gas Partnership, boiler replacement programme:** Again in 2021/22 we have accelerated the gas boiler and new system replacement programme. The capital cost is balanced by reduced maintenance liabilities and the benefits of modern controls, improved thermal comfort and reduced CO2 emissions.
- 3.9. **Energy Support Officer:** The crisis in the energy markets has brought many challenges whilst the service has focused attention on better support for tenants and opportunities for energy reduction. Lancaster City Councils initiative to employ an Energy Support Officer, continues to contribute to reducing fuel poverty, and help to take informed decisions and control energy use. Tangible benefits include visiting all new tenants within the first two weeks and a referral service for current tenants, offering energy advice. During Quarter 3 (2021/22) 1259 pieces of specific advice were provided to tenants, including 83 relating to the Warm Homes Discount and the Priority Services Register for utilities.
- 3.10. **Electric Vehicles and charging points:** The Repairs and Maintenance team has committed to the replacement of all suitable vehicles to electric vehicles.
- 3.11. **Property Conversions/new properties (outlined in Appendix E):** An EPC 'A' rating has been adopted as the benchmark standard for all new build properties and where technical and cost effective, all conversions. As a tangible demonstration, 'A' rated conversions have been added to Melling Court and a fully accessible 3 bedroomed home in Galgate.

#### 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 2022/23 is the third 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 2022/23, the September 2021 CPI figure of 3.1% 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 level<sup>1</sup>.
- 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

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<sup>1</sup> 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.

(HB) or through the housing element of Universal Credit (UC)<sup>2</sup>. We estimate that around 80% of tenants are in receipt of some form of HB or UC<sup>3</sup>.

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)<sup>4</sup>
- Right to Buy (decrease in housing stock); as at Q3 a total of 14 Right-To-Buy completions have taken place in 2021/22. Estimates assume 20 completions per year in future years. It should be noted that during 2021/22 the conversion of two former Independent Living Officer properties delivered two additional new homes, in addition to the new 'A' rated family home in Galgate. When netted off against Right to Buy sales housing stock is estimated to reduce by 17 for the year.

*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 follows<sup>5</sup>:-

Property Type	2021/22	2022/23
General	<b>£74.87</b>	<b>£78.24</b>
Sheltered and Supported	<b>£70.00</b>	<b>£73.49</b>

## 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. Costs of service provision are reviewed periodically. Costs of service provision have been reviewed for 2022/23.

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%.”<sup>6</sup>

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> While Covid restrictions largely eased during 2021/22 the impact of the pandemic on voids and reletting continued to impact this area of work: reduced demand/reticence to access rehousing within some Independent Living schemes being a particular issue.

<sup>5</sup> 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 £56.44 (for a bedsit at Mainway) and £115.15 (for a 4-bedroom house in Bolton-le-Sands), and for sheltered housing between £58.58 for a bedsit at Beck View and £94.00 for a two-bed flat at Artlebeck Close.

<sup>6</sup> Source: Policy statement on rents for social housing - Feb 2019

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 basis<sup>7</sup>.

- 5.3. For 2022/23 across all housing stock service charges will increase by 4%. Within this average is a variation between charges applied to Independent Living (3.6% increase) and General Needs (5.1% increase)<sup>8</sup>.
- 5.4. It is estimated that around 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 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 have been subject to a rent freeze since 2020/21. Following review and benchmarking against other garage providers it is recommended that they be subject to a further freeze for 2022/23. A full review of garage sites was instigated by the Asset Manager during 2021/22 and will establish a strategic direction in this area. Opportunities for development and alternative use for garage sites are being explored.

## **6. Revenue Expenditure**

- 6.1. The future years estimates for 2022/23 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: -
  - Salary costs are now forecast to be around £28K higher than previously estimated, as a result of the pending 2021/22 pay award (negotiations ongoing), which was previously assumed to be a pay freeze for all employees earning over £24,000
  - Repairs and Maintenance increase of around £124K in 2022/23 is also related to the pending 2021/22 pay award, as explained above
  - Premises insurance increases relating to the premium for council house properties
  - Planned capital expenditure has increased by £567K in 2022/23 (see Appendix D), resulting in changes to the funding required from the Major Repairs Reserve.
- 6.3. In summation, the 2022/23 revenue budget projected funding requirement is £826K (prior to the approval of savings and budget proposals). This is £323K higher than

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

<sup>8</sup> The most relevant factor affecting the service charge increase relates to building costs. The Building Cost Information Service (BCIS) inflation figure used to establish cost information within the construction industry is currently running at 8.9%. The impact on the cost of planned and other maintenance works within communal areas translates into service charge increases.

the previously projected £503K, and again this will be funded by unallocated balances. The revised projection is due to the points described above (6.2), notably:

- Additional salary costs as a result of the pending 2021/22 pay award
  - Additional planned capital expenditure
- 6.4. This should be considered in the light of significant underspends on the capital programme in 2019/20 through to 2021/22, along with higher than anticipated capital receipts.
- 6.5. Should all additional resource requirements items be approved then there will be an additional funding requirement in 2022/23 through to 2028/29 which will require funding from unallocated balances, supported by the Business Support Reserve. This management of the fund would see surpluses generated in the years thereafter (see Appendix A).

## **7. Capital Expenditure**

- 7.1. The four-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. Members are requested to approve redirection of funds (£750k) within the 2021/22 HRA Capital Programme. Funding was intended to be utilised undertaking kitchen refurbishment works. These works have been postponed due to the risks associated with working in occupied properties and the potential spread of Covid 19. This work will recommence in 2022/23. Redirected funds will be used to remove composite (plastic) fencing installed to the rear of Council Housing properties to minimise the risk related to spread of fire, damage to properties and danger to life. These works are currently being undertaken by the Councils Planned Maintenance team.
- 7.4. A number of programmes of work (value over £200k and key decisions over £250k) will be advised during 2022/23 and it is requested that members delegate the Chief Executive to approve tender of these contracts as per procurement rules. Chief Executive sign off will be sought on a case-by-case basis. Key decision notices will be provided where required.

The programmes of work will be:

- Re-rendering and reroofing at Halton, and reroofing of bungalows on ridge and Christie Ave
  - Whole House improvements, Beaumont
  - 1a Alder Gr – demolition of existing scheme managers property and construction of 4 flats
  - Kitchen and bathroom renewals to properties on Ryelands Estate
  - Continuation of the Fencing programme on Trumacar, Higher Heysham and Kingsway estates
  - Smoke alarms installation on the Vale
- 7.5. The capital programme includes no provision for any major refurbishment works on the Mainway estate.

7.6. Further to this, it is worth noting the following:

- The kitchen replacement programme has been slipped by a further 12 months, to minimise works carried out inside tenanted properties during the pandemic
- Two significant property conversions have been slipped by 12 months, due to design and planning permission negotiations.

## 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.

<b>Additional budget proposals</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
Tenant Liaison Officer	<b>27,900</b>	<b>34,400</b>	<b>35,900</b>	<b>38,300</b>
CBL Support (MEX) 0.5FTE	<b>10,700</b>	<b>13,100</b>	<b>13,700</b>	<b>14,600</b>
Communications Officer 0.5FTE	<b>13,300</b>	<b>16,600</b>	<b>16,900</b>	<b>18,200</b>
Compliance Team and catch-up work	<b>526,000</b>	<b>136,900</b>	<b>143,100</b>	<b>148,600</b>
CBL Locata project (£72K funded from ICT & Systems Improvement Reserve)	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
System Replacement (pre-project work) (£212K funded from ICT & Systems Improvement Reserve)	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Independent Living scheme equipment upgrade – digital (£250K funded from Sheltered Support Grant Maintenance Reserve)	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Accelerated Mainway Phase 1 (£4M funded from Business Support Reserve) <sup>9</sup>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total of all budget proposals</b>	<b>577,900</b>	<b>201,000</b>	<b>209,600</b>	<b>219,700</b>

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. None of these costs are included in this report, pending consideration of the separate Mainway report elsewhere on this agenda.

<sup>9</sup> Refer to separate Mainway report, being considered elsewhere on this agenda

9.2. For clarity, no major capital works in relation to Mainway are included in this report, with the exception of the £4.0M growth item above (see 8.1). 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 2022 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 2021 to projections as at February this year.

### 30 Year Business Plan: Business Support Reserve and Unallocated Balances

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	30 Year Cumulative Total £'000
Business Support Reserve	7,718	7,716	7,716	7,716	7,716
Unallocated Balances	1,844	1,863	2,102	2,306	11,947
<b>Projections as at February 2021</b>	<b>9,562</b>	<b>9,579</b>	<b>9,818</b>	<b>10,022</b>	<b>19,663</b>
Business Support Reserve	6,516	6,446	6,276	6,259	6,259
Unallocated Balances	1,608	602	500	500	19,366
<b>Projections as at February 2022</b>	<b>8,124</b>	<b>7,048</b>	<b>6,776</b>	<b>6,759</b>	<b>25,625</b>
<b>Overall Movement (Adverse) / Favourable</b>	<b>(1,438)</b>	<b>(2,531)</b>	<b>(3,042)</b>	<b>(3,263)</b>	<b>5,962</b>

11.2. The unallocated balance is currently £3.3M 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 £6.3M. 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, which requires

support until 2028/29, and the possibility of its further use to supplement the Mainway project.

- 11.4. In relation to the position reported to council February 2021, the increase in the projected balance at the end of the 30-year business plan is largely due to a change in inflation assumptions relating to insurance.
  - 11.5. As outlined in the table above the projected balance at the end of the 30-year business plan is £25.6M. The reason for the increase from £8.1M is due to the cessation of the £1.041M annual self-financing repayment from 2041/42. This is relevant to the final 10 years of the 30-year business plan creating a real impact of £10.4M over that period.
  - 11.6. Should the growth items in section 8 be approved then the combined level of reserves will be reduced to £12.8M by the end of the 30-year business plan.
  - 11.7. As previously discussed, rents have been set at CPI+1% for five years. Due to fluctuations in CPI, 2022/23 rental income from dwellings is now forecast to be approximately £138K higher than estimated in the previous budget report. It has been assumed that increases will revert to CPI only from 2025/26, but the risks surrounding these assumptions must be appreciated and the magnitude of impact of a small change within this area.
  - 11.8. 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 2021/22. In order to protect current occupancy and income levels, and inline with sector benchmarking, a further 12-month freeze is recommended. Garage rents and occupancy will remain under review.
  - 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 £500K 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.

<b>Option 1:</b> 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
<b>Advantages:</b> 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.
<b>Disadvantages:</b> Increased rent levels for tenants.
<b>Risks:</b> 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.
<b>Option 2:</b> 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.
<b>Advantages:</b> 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.
<b>Disadvantages:</b> Non-approval of additional budget proposals would cause a scaling back of ambitions.
<b>Risks:</b> Inability to maximise service provision and deliver on Council, and housing related ambitions.

<b>Option 3:</b> To propose alternatives to those outlined in Section 11 above.
<b>Advantages:</b> Unknown
<b>Disadvantages:</b> Would require further options analysis
<b>Risks:</b> 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