

# CABINET

## Housing Revenue Account and Capital Programme 7 February 2023

### Report of Director for Communities and the Environment and the Chief Finance Officer (Head of Finance & Section 151 Officer)

PURPOSE OF REPORT			
To seek Cabinet decisions on Council Housing rent setting proposals and HRA revenue and capital budget proposals.			
Key Decision	<input checked="" type="checkbox"/>	Non-Key Decision	Referral from Cabinet Member
Date of notice of forthcoming key decision	12 December 2022		
This report is public			

#### RECOMMENDATIONS OF Councillor Matthews

- (1) That the use of the latest projected Housing Revenue Account revenue outturn figures, as set out at Appendix A, to provide a mid-year reviewed budget position which will form the basis of future monitoring and outturn within 2022/23, be referred on to full Council for noting.
- (2) That the latest projected Housing Revenue Account Capital Programme outturn figures for 2022/23, as set out at Appendix C, be referred on to Council for approval.
- (3) That the minimum level of HRA unallocated balances be increased to £750,000 from 01 April 2023, and that the full Statement on Reserves and Balances as set out at Appendix E be endorsed and referred on to Budget Council for approval.
- (4) That council housing rents be set in accordance with statutory requirements as follows:
  - for existing tenancies, rents will increase by 7.0% from 3 April 2023
  - for new tenancies within 2023/24, rents will be set at 'formula rent'<sup>1</sup>

<sup>1</sup> The principle of reletting properties within year at 'formula rent' is in line with previous years. This applies to properties whose rent has not already achieved the government's 'formula rent' – a calculation to produce a social rent based on local conditions and circumstances. For 2023/24 formula

- (5) 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.
- (6) That a delegated decision to approve the tender of four programmes of work (over £200K and key decisions over £250K) during 2023/24 can be made by the Chief Executive (as per 7.4 below) and in line with procurement rules.
- (7) That subject to the above, the resulting Housing Revenue Account budget for 2023/24 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.

## **1.0 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 pays into the Council's general fund through contribution to support services and corporate commitments used.

## **2.0 Achievements 2022/23**

- 2.1 Key achievements:
  - 2022/23 has seen continued guidance and support to tenants around rent arrears prevention and management. Having ended 2021/22 with record low current tenant arrears of £99K the team continue to perform at the highest level with arrears at the end of Q3 of £124K: a reduction of 19% 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. As at Q3 2022/23 only 3 housing possession cases and 3 warrant applications have been made.
  - In December the Housing Service won Council of the Year at the UK Housing Awards, the sector's most prestigious awards.
  - 87 tenancy health checks have been completed up until the end of Q3 2022/23, helping to support tenants in sustaining new tenancies and realising an increase in tenant income of £14.6K through income and benefit maximisation work.

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rent will increase by CPI as at September 2022 (10.1%). The fact that the average rent increase between 2022/23 and 2023/24 is not *exactly* 7.0% is explained by the fact that some properties within year increase to 'formula rent' and therefore increase the figures used for comparison.

- As at Q3 2022/23, 43 households have taken up Universal Credit and Housing Benefit eligible Furniture packages provided by the housing team in partnership with NFS to support them to maintain their new homes.
- The Energy Support Officer who supports tenants with advice and guidance around all home energy related matters has undertaken a total of 198 home visits this year to date, 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, is nearing completion. This year we will have refurbished a total of 27 homes.
- The work to convert an old stables into an energy efficient three-bed adapted home has started and due to completion in late Spring.
- Through the Neighbourhood Project Fund a number of community projects have been funded, including: support for a community led coffee bar and social action hub, delivered by Cornerstones, to promote advice, support, and community conversations; a Ryelands Summer Creative Activities Club for 6-13 year olds during the summer holidays; and support for the Westgate Residents to deliver a targeted spruce up of the outside environment.
- Approximately 10,000 responsive repairs are expected to be carried out during 2022/23 and 187 vacant dwellings (voids) have been refurbished to the lettable standard by the end of quarter 3.
- The Team have developed an Asset Strategy specifically for Council Housing dwellings and embarked on 100% stock condition survey programme.
- We have moved from a 10-year to a 5-year electrical testing programme for all Council Homes in line with best practice.
- We have continued to support local residents with employment opportunities creating three apprenticeships within the service, and supported social work students complete placements providing essential insight into housing.
- Self-assessed as compliant against the Housing Ombudsman Complaints Code.
- Worked with Resolve (ASB Housing specialist) to complete a comprehensive review of the ASB service provided by Council Housing with improvements being undertaken through 2023.
- Gained planning permission for a new four bed modern energy efficient scheme at Alder Grove. Works are expected to begin later in 2023.
- Undertook two summer housing events on Hala and Branksome – following which Community Plans are being developed alongside residents. The service's first Community Plan for Ryelands was signed off by residents in October 2022.
- Trained residents in customer scrutiny – with plans for services to be reviewed in 2023/24.
- Continued to deliver advice and support from two local housing hubs – King Street shop and My Mainway Hub

2.2 The strategic direction of the housing service continues to be delivered in response to:

- wider Council priorities,
- the Regulator for Social Housing
- the Housing Ombudsman's requirements,

- expectations from the developing Building Safety Executive,
- emerging themes and requirements from the Social Housing Bill (which sets expectations for the future regulatory environment and places greater emphasis on tenant engagement and voice within service delivery), this is currently laid before Parliament,
- 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 Of particular note for 2023/24 is the introduction of Tenant Satisfaction Measures which will need to be captured before 31st March 2024, the mandatory registration of high-rise buildings, government-led professional standards review of housing professionals, as well as monitoring changes within housing consumer regulation and possible Ofsted-style inspections. The service will continue to keep abreast of forth-coming changes and plan accordingly.

2.4 In line with the above expected key strategic priorities for 2023/24 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), supported through funding bids where available.</li> <li>• Mainway Masterplan to be confirmed and planning application for site brought forward.</li> <li>• To seek to bring forward a planning application for earmarked elements of Canal Quarter for affordable homes.</li> <li>• Development of Climate Emergency Strategy for Council Housing.</li> <li>• 100% stock condition surveys completed.</li> </ul>
An inclusive and prosperous local economy	<ul style="list-style-type: none"> <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; Canal Quarter Development, conversion / build of 6 The Greaves; planning application for garage sites for potential development submitted; Alder Grove expansion, through Homes England funding application.</li> <li>• Continue to provide apprenticeship opportunities for local residents and seek opportunities to promote housing career pathways to local young residents.</li> </ul>

	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Seeking funds through government to invest in our stock.</li> <li>• Review grounds maintenance contract and seek to promote more widely what will be undertaken.</li> </ul>
Healthy and Happy communities	<ul style="list-style-type: none"> <li>• Supporting the development of resident scrutiny groups and creating opportunities for residents to contribute to service development and the decision-making process. Including TPAS accreditation.</li> <li>• Continuing delivery of a 'place-based' approach to estate and neighbourhood work, facilitated through 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>• Facilitating (and funding) community specific, community led projects.</li> <li>• Continue to develop and improve ASB provision for residents.</li> </ul>
A co-operative, kind and responsible council	<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>• Website review and development for Council Housing.</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> <li>• Continued roll out of service standards so customers can hold the service to account.</li> </ul>

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|  | <ul style="list-style-type: none"><li>• Review resident engagement strategy.</li></ul> |
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### **3.0 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 2022/23.

#### **Energy Performance Certificate (EPC) Band C Housing Stock**

Lancaster City Council is in year 2 of an 8 year programme of 'fabric first' led energy improvement works across our Council stock. The goal of this project is to raise the energy performance rating of all Council Housing properties to a minimum 'C' rating by 2030. Building on significant progress that has been achieved to verify our historical EPC data and improved modelling capability with the introduction of Parity Pathways, £389K from an estimated £2.5M programme has been allocated to this year's programme for energy performance improvements within the Capital Programme.

We continue to review our modelling, verification and expand our EPC data for the stock. Overall, we have lodged 234 new EPC's this year, returning 200 properties at 'C' and above. The number below 'C' is 939, However, this includes 242 of the Mainway stock, which will be addressed in a future scheme. Ongoing improvements will be sought through the range of options listed below, as well as ongoing support for those who live in properties which fall below the 'C' rating.

#### **Void property, energy retrofit improvements**

We will continue our major void programme which includes a significant energy performance retrofit component, following a fabric first rationale installing insulation and efficiency measures. We will build on the successful strategy this year, and aim to return all Void properties for re-letting at a minimum 'C' rating and take all opportunity to exceed this standard.

#### **Government decarbonisation scheme**

Following on from the LAD1 scheme, as part of a consortium led by Blackpool Council, we have submitted a further bid for additional external funding through the government's decarbonisation Social Housing Decarb Fund WAVE2 programme.

If successful this will add matched co-funding of approximately £700K to our existing capital programme for energy efficiency work. Five problematic housing types are targeted for improvement, off-gas, system-built homes and flats, solid wall and poorly performing traditional, with the ambitions to improve at least 100 properties over two years.

#### **Whole House Improvement programme**

The final phase of 27 energy retrofit and internally refurbished properties will be completed this year working up to a total of 56 of the poorest housing on the Mount Avenue estate, benefiting from a significant improvement in energy performance to a current 'C' EPC rating, which equates to a potential 25% reduction in annual carbon emissions and lower bills for tenants.

#### **Loft Insulation**

The minimum standard for loft insulation is to achieve at least 300mm. We plan to insulate 77 new roofs this year and in addition, through void

maintenance we will ensure that all properties for new tenancies achieve the 300mm standard.

Learning from energy improvements, insulation work will include sloping soffits and lagging exposed pipework and water storage, future proofing against pipe bursts we have experienced during the recent episodes of very cold weather.

BRE heat loss modelling calculates that 25% of heat energy is lost through roofs, which demonstrates the contribution of this low cost but effective energy saving insulation measure to our carbon reduction strategy.

### **Solar Panel Installations**

We will continue the programme of solar panel installations, with a planned project of 30 4KW arrays to be installed at Prospect Grove. The Energy Support Officer will ensure there is a strong tenant engagement with the project. Connection to the ORSIS system enables remote monitoring and information to help tenants adapt to the new technology and achieve the maximum benefit from the installation.

### **Gas Partnership, boiler replacement programme**

We will continue with the boiler renewal programme, accelerating the replacement of aged and inefficient gas boilers with state of art energy efficient modern gas appliances providing cost effective instantaneous hot water. This provides more efficient heating with improved control, and affords a higher level thermal comfort for tenants, with reduced carbon emissions.

### **Energy Support Officer**

The energy crisis affects all households but is adversely impacting our low income and vulnerable tenants.

The energy support service seeks to support all new tenancies providing energy advice, and managing a busy referral service for any existing tenants who would like support and advice. In the year to date, we have offered over 1840 separate items of energy advice. However, the real measures of success are the stories behind our 136 interventions, supporting tenants with debt and threat of disconnection to gain control and manage their energy bills.

We anticipate another busy year, and greater challenges to our service. We will stay focused on our vulnerable tenants. To meet the anticipated increased demand, we will roll out energy advice through our media platforms and energy surgeries.

### **Electric Vehicles and charging points**

We plan to install an additional 60KW electric vehicle (EV) charger and two EV charging points at White Lund Depot and a 60KW EV charger at Heaton House, providing an extra remote facility. The 60KW points have capability to charge two vehicles, providing a total of 6 EV charging facilities.

We will continue to roll out the transition to electric vehicles. Twelve new light panel vans will be added and as suitable and affordable heavier vehicles enter market the transition will be completed.

### **Property Conversions / new properties**

We have adopted an EPC 'A' rating as the benchmark for all new properties and ground up conversions and will take all affordable opportunities to exceed this standard and to incorporate low carbon and renewable technologies.

As a tangible demonstration of our commitment to new low carbon housing, this is the standard for any future development of the Mainway Estate or similar projects, and for delivery next year, four new homes will be constructed at the Alder Grove site, which will utilise highly energy efficient modular construction.

The transformation of 6 The Greaves into a fully accessible adapted property is of special note. The finished project will achieve an EPC 'A' rating and feature an air source heat pump, solar PV array and an electric vehicle charging point.

#### **4.0 Rent Setting**

- 4.1 As a registered provider of social housing the Council adheres to the Regulator of Social Housing's 'Rent Standard.' Housing rents are set in line with the Government's Rent Policy Statement.
- 4.2 The financial year 2023/24 was to be the fourth of five years where the Council had the freedom to increase *formula* rent by a maximum of CPI+1% (CPI is the Consumer Price Index). For rent setting purposes for 2023/24, the September 2022 CPI figure of 10.1% is used, with forecast CPI used thereafter.
- 4.3 However, as announced by the Chancellor of the Exchequer in his Autumn Statement on 31 October 2022, the Government has capped social rent increases in 2023/24 at 7.0% for existing tenants. This is due to what the government describe as 'exceptional circumstances.' The income levels included within this report assume the below inflation increase of 7.0% is applied across all housing stock.
- 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>2</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 (HB) or through the housing element of Universal Credit (UC)<sup>3</sup>. We estimate that around 80% of tenants are in receipt of some form of HB or UC<sup>4</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>5</sup>

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<sup>2</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.

<sup>3</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>4</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>5</sup> Empty homes are currently relet within target times, which minimises void rent loss, however major voids (those which require significant works, including renewal or replacement of major elements) and



- Right to Buy (decrease in housing stock); as at Q3 a total of 15 Right-To-Buy completions have taken place in 2022/23. Estimates assume 18 completions per year in future years. It should be noted that during 2022/23 the conversion of a former Independent Living Officer property delivered an additional new home, and three dwellings were bought back from leaseholders as part of the Mainway regeneration pilot scheme. When netted off against Right to Buy sales, housing stock is estimated to reduce by 14 for the year.

For further details about risk factors please refer to Appendix G.

- 4.7 Therefore, in line with government policy Cabinet is now advised to set average council rents as follows<sup>6</sup>:-

Property Type	2022/23	2023/24
General	<b>£78.24</b>	<b>£83.96</b>
Sheltered and Supported	<b>£73.49</b>	<b>£79.00</b>

## 5.0 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 have been reviewed for 2023/24.
- 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 (as at September in the previous year) + 1 percentage point (or 7% in 2023-24), to help keep charges affordable.”<sup>7</sup> 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>8</sup>.
- 5.3 For 2023/24 across all housing stock service charges will increase by 16.5%<sup>9</sup>. This includes all gas, electricity and heating charges. Where these communal energy costs are removed from the comparison the increase is 7.4%. Within this average is a variation between charges applied to Independent Living (18.6% increase including utility costs, 8.9% without) and General Needs (9.9% increase including energy costs, 3.5% without)<sup>10</sup>. It is usual to see

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properties subject to planned capital projects (such as the Mainway and Mount Avenue projects) have a negative impact on void rent loss.

<sup>6</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 £60.39 (for a bedsit at Mainway) and £123.21 (for a 4-bedroom house in Bolton-le-Sands), and for sheltered housing between £62.68 for a bedsit at Beck View and £100.58 for a two-bed flat at Artlebeck Close.

<sup>7</sup> Source: Policy statement on rents for social housing – Dec 2022

<sup>8</sup> Source: National Housing Federation Briefing on Rent Standard 2020 - Jan 2020

<sup>9</sup> Subject to further fluctuations in cost of service delivery

<sup>10</sup> The most relevant factors affecting the service charge increase relate to building costs, general inflation, and energy costs. The Building Cost Information Service (BCIS) inflation figure used to establish cost information within the construction industry is currently running at 3.8%. The General

fluctuations in service charge costs across property types, but current energy costs are exacerbating this. See 6.2 (below) and footnote 9 for further explanation of energy costs.

- 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 2023/24. Garage occupancy rates have improved during 2022/23, from 80% occupancy (75 voids) to 86.6% (56 voids). The threat to occupancy rates of a rent increase would potentially offset any benefits to income generation. Opportunities for development and alternative use for garage sites are being explored.

## **6.0 Revenue Expenditure**

- 6.1 The future year's estimates for 2023/24 alongside the following four 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 £88K higher than previously estimated, as a result of the 2022/23 pay award.
  - Additional salary costs to bring the Anti Social Behaviour Officer seconded into the team from the General Fund permanently in-house, offset against a corresponding reduction to Supplies & Services.
  - Repairs and Maintenance increase of around £1,007K in 2023/24 due to the 2022/23 pay award as well as the inclusion of additional budget for fire safety works and compliance testing.
  - Energy costs increase of around £178K, largely rechargeable<sup>11</sup>.
  - Premises insurance increases relating to the premium for council house properties.

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Inflation rate is 10.1% (CPI as at Sept 2022). Energy costs are relevant to those residents with the use of communal heating systems and have increased significantly during 2022/23 as is widely publicised. The impact on the cost of planned and other maintenance works within communal areas, and the delivery of other services, translates into service charge increases.

<sup>11</sup> Energy costs have increased significantly since April 2022, are currently subject to regular fluctuation, and are monitored monthly. Prior to the cost of living crisis costs were stable and were charged in arrears. For 2023/24 (as in 2022) where significant fluctuations occur service charge adjustments will be made 'in year' to more accurately charge for actual usage, and allow residents more control over their costs. Where the council benefits from the government's business relief scheme this saving is passed on to residents. The Income Management team actively supports tenants to ensure government support around energy costs is received and understood.

- Planned capital expenditure has increased by £750K in 2023/24 (see Appendix D), resulting in changes to the funding required from the Business Support and Major Repairs Reserves.

6.3 The table below lists the major assumptions that have been made for the 2023/24 budget.

	2023/24
Fees & Charges	Various
Inflation – Pay	4.0%
Employer Pensions Contribution	16.3%
Inflation – General (Minor Cost Centres)	2.4%
Inflation – Insurance	10.0%
Inflation – Utilities	Gas: 25.3% Electric: 31.6%
Interest Rate - Investments	3.5%

6.4 In summation, the 2023/24 revenue budget projected surplus is £233K, which is a reversal of the previously projected funding requirement of £530K, which was to be funded by unallocated balances. This surplus includes a transfer from the Business Support Reserve to bring Unallocated Reserves up to the new minimum level of £750,000, as recommended by the Section 151 Officer (see 9.1). The revised projection is due to the points described above (6.2), notably changes to planned capital expenditure and related funding.

## 7.0 Capital Expenditure

7.1 The 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 Members are requested to approve redirection of funds (£158K) within the 2022/23 HRA Capital Programme. Funding was intended to be utilised undertaking kitchen refurbishment works, but due to ongoing Covid precautions, the programme did not fully restart until quarter 2. 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 Council's Planned Maintenance team.

7.4 A number of programmes of work (value over £200K and key decisions over £250K) will be advised during 2023/24 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:

- Reroofing of properties on Ryelands estate
- Re-rendering works to properties at Hala
- Whole House Major Voids works and refurbishment

- 1a Alder Grove – demolition of existing scheme managers property and construction of 4 flats (if contract not awarded within 2022/23)
- 7.5 The capital programme includes no provision for any major refurbishment works on the Mainway estate due to the ongoing regeneration project (see section 8).
- 7.6 The Housing Team are prudently currently embarking on a full stock condition survey of council dwellings which is due to be completed within Autumn 2023, 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.

## **8.0 Future Developments**

- 8.1 The City Council continues to have ambitions for the development of its own new affordable / social rented homes, which it is seeking to progress, this also seeks to offset the downward trend of lost Council Housing stock as outlined above. 2023/24 is seen as a critical juncture in progressing designs to planning applications, prior to seeking the appropriate funding through grant, borrowing and key partnerships. The focus for the next twelve months will see:
- Completion of a single dwelling conversion at The Greaves into a three-bedroom adapted energy efficient home as referenced above.
  - Start on site for the aforementioned four-bed development with community facility at Alder Grove, providing additional much-needed older persons accommodation.
  - Progression to planning application for a collection of garage sites converted into single person / family accommodation.
  - Progression of the wider Mainway masterplan through to accelerated first phase planning application enabled through the purchase of the redundant elements of Skerton High School (subject to S.77 DfE application).
  - Planning application secured for Coopers Field within the Canal Quarter working alongside a Registered Provider to deliver a mixture of new homes both at market and affordable rent.
- 8.2 For clarity, no major capital works in relation to the garage site conversions, Mainway or Canal Quarter are included in this report.

## **9.0 Provisions, Reserves and Balances**

- 9.1 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 increasing the minimum level of HRA Balances to £750K from 01 April 2023 to support the budget forecasts, as part of the overall medium term financial planning for the HRA.
- 9.2 In calculating the minimum level of HRA Balances, an assessment of the risks that give rise to unanticipated expenditure or loss of income has been made and these are shown in the table below.

<b>Risk</b>	<b>Symptom of Risk</b>	<b>Balance Required £M</b>
Increased Demand for Services	1% Increase in Net Revenue Expenditure	0.150
Recession results in additional reduction in Rental Income	2% Reduction in Income	0.350
Natural Disaster such as Flood etc	Additional Unexpected Expenditure	0.150
Additional Uncertainty with Respect of the Cost Of Living	Additional Unexpected Expenditure	0.100
<b>Aggregate Overspend if all of the above risks were to happen</b>		<b>0.750</b>

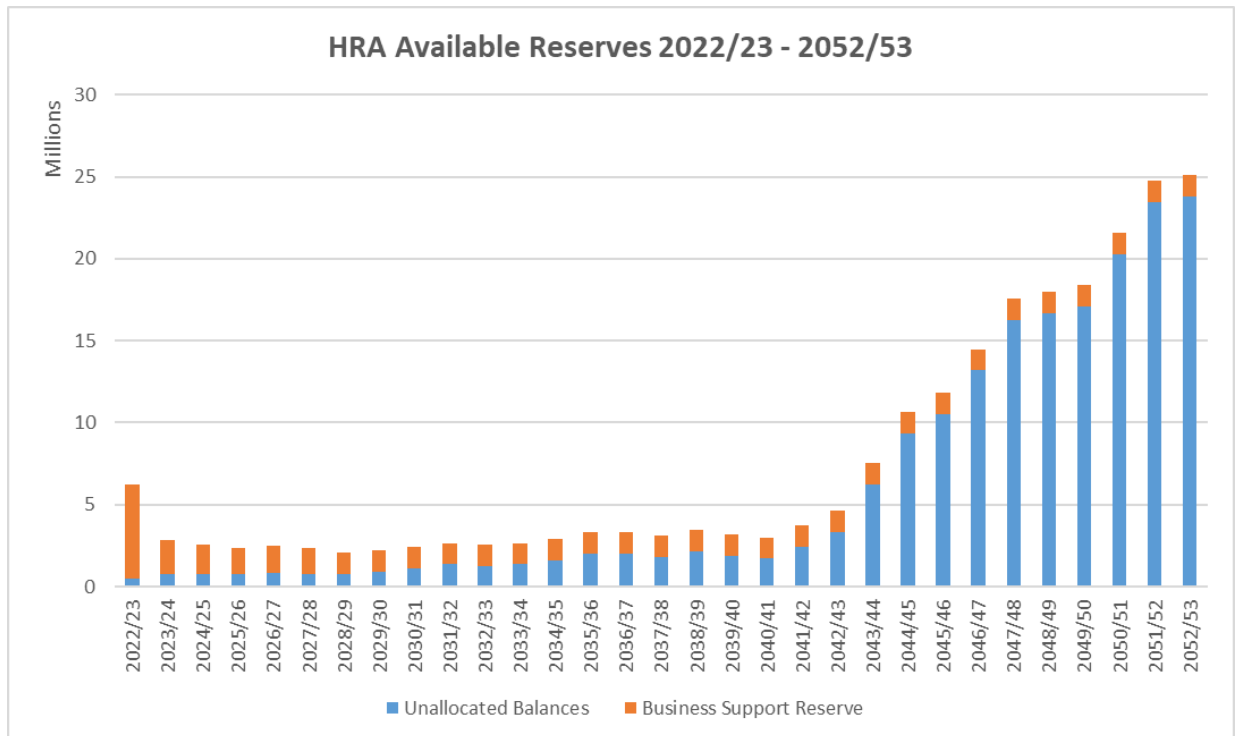
- 9.3 Draft statements on all reserves are attached at Appendix E(i) and Appendix E(ii). Levels are viewed as adequate for the period covered and Cabinet is asked to endorse this information, with the Statement being referred on to Council as part of the HRA budget proposals.

## 10.0 Business Planning & Future Risks

- 10.1 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 2022 to projections as at February this year.

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

	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>30 Year Cumulative Total £'000</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	
Business Support	2,516	1,769	1,287	1,051	875	785	639
Unallocated Balances	1,030	500	500	500	500	500	12,131
<b>Projections as at February 2022</b>	<b>3,546</b>	<b>2,269</b>	<b>1,787</b>	<b>1,551</b>	<b>1,375</b>	<b>1,285</b>	<b>12,770</b>
Business Support	5,678	2,104	1,796	1,628	1,628	1,576	1,304
Unallocated Balances	517	750	750	750	860	750	23,768
<b>Projections as at February 2023</b>	<b>6,195</b>	<b>2,854</b>	<b>2,546</b>	<b>2,378</b>	<b>2,488</b>	<b>2,326</b>	<b>25,072</b>
<b>Overall Movement (Adverse) / Favourable</b>	<b>2,649</b>	<b>585</b>	<b>759</b>	<b>827</b>	<b>1,113</b>	<b>1,041</b>	<b>12,302</b>



- 10.2 The unallocated balance is currently £2.6M and at no point within the 30-year business plan does it breach the £750K lower limit as detailed in section 9.1.
- 10.3 The Business Support Reserve has a current unallocated balance of £2.1M. However, this will be relied upon to support revenue spend in the short to medium term (currently until 2028/29).
- 10.4 A contribution of £600K will be made to the ICT and Systems Improvement Reserve to bring the balance of that reserve up to £904K. This is to support the Council Housing Transformation Project for which preparatory work is underway, and which will provide complete replacement of outdated systems within the service and support delivery of modern, resident focussed housing services. Future options around this project will be presented through the Council’s decision-making process.
- 10.5 It is proposed that with hybrid working and shared office space for staff now in operation, the Office Equipment Reserve be closed and the balance (£39K) transferred to the ICT and Systems Improvement Reserve.
- 10.6 The increase in the projected balance at the end of the 30-year business plan is largely due to a further change in inflation assumptions relating to insurance as well as the year-on-year impact of the higher rent increase for 2023/24.
- 10.7 As previously discussed, in line with the previously agreed national rent settlement, rents have been set at CPI+1% for five years. Whilst the 2023/24 Government-imposed cap of 7.0% rent increase for existing tenants continues to provide challenges in service delivery, for next year rental income from dwellings is now forecast to be approximately £604K 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 understood.
- 10.8 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 F.

### 11.0 Options and Options Analysis (including risk assessment)

- 11.1 The options with regards to rent setting are set out under section 4, the maximum permitted increase for existing tenants being 7.0% for 2023/24. 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.
- 11.2 In relation to garage rents, the previous decision was to freeze rents for 2022/23. In order to protect current occupancy and income levels, and in line with sector benchmarking, a further 12-month freeze is recommended. Garage rents and occupancy will remain under review.
- 11.3 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 and coherent with the legislative and regulatory requirements of a Registered Provider.
- 11.4 The options available in respect of the minimum level of HRA balances are to increase the level to £750K 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.
- 11.5 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.
- 11.6 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	<b>Option 2:</b> To propose alternatives to those outlined in Section 11 above.
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.	Unknown
Disadvantages	Increased rent levels for tenants.	Would require further options analysis
Risks /	The HRA budget set out in this	Impact on housing service and

Mitigation	report is sustainable in the long term. The risks associated with Option 1 are outlined in Appendix F – Risks and Assumptions. To offset challenging increases in rent and service charges the team have a high performing Income Management Team providing dedicated one to one support to those who need it, alongside additional support officers such as Energy Support Officer, Household Intervention Team and Independent Living Team.	council housing tenants unknown. Potential for housing service to fall foul of legislative and regulatory requirements, leading to unlimited fines and being ‘named and shamed’ by government.
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## 12.0 Officer Preferred Option (and comments)

- 12.1 **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.
- 12.2 A consultation meeting was held with the District Wide Tenants’ Forum on 19<sup>th</sup> January 2023, where the Neighbourhood and Support Services Manager presented the headlines of the report and answered questions from tenants and councillors.
- 12.3 The group agreed that they were broadly supportive of the rent increase of 7%, while recognising the challenge this poses to residents in the current economic climate. It was noted that financial and other support is a central part of housing service delivery.
- 12.4 The group commented that they feel rents are accountable and transparent, and noted that it’s important that rental income is being spent to ensure homes are maintained to a high standard. The group gave positive feedback about the council housing response to the climate emergency, particularly around plans to tackle energy efficiency within housing stock.

## 13.0 Conclusion

- 13.1 Whilst the report highlights challenges faced within the current economic environment, Lancaster City Council’s Housing Service continues to operate a sensible but forward-looking approach, developing and adopting best practice to deliver high quality homes and services to residents whilst being mindful of future legislation and regulation requirements, preparing accordingly.

### 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

**(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing)**

The proposals set out in the report will have positive impacts residents within Council Housing dwellings specifically climate change, wellbeing / social value, health and safety and community safety as outlined below. There is no significant detrimental impact on



equality on specific groups. See Appendix G – Equality Impact Assessment.

**Climate:** as per section 3, the report outlines a number of positive climate related impacts resulting from the HRA budgeting process. Also, see Appendix G for additional positive impacts

**Wellbeing & Social Value:** positive impacts identified via additional budget proposals. See appendix G for details.

**Health and Safety:** the Council Housing dedicated Compliance Team focusses on monitoring and maintaining compliance against core areas of legislation within council dwellings specifically gas, electrical, legionella, lifts, asbestos, fire, smoke and CO2 detection and fire door testing. The dedicated budget around this work supports compliance.

**Community Safety:** The approach to a dedicated ASB provision for Council Housing tenants and continued engagement and review of ASB provision with Resolve will see a positive impact for local residents.

### **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 Part 6 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 IMPLICATIONS**

**Human Resources:**

None identified

**Information Services:**

None identified

**Property:**

None identified

**Open Spaces:**

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 £0.750M 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 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

#### **BACKGROUND PAPERS**

See Appendices A-G

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