

**Housing Revenue Account
Budget Framework 2023 to 2028
22 February 2023**

Report of Cabinet

PURPOSE OF REPORT

To present Cabinet's final budget proposals in relation to the Housing Revenue Account in order that the City Council can complete its budget setting for 2023/24 and update its financial strategy to 2028.

This report is public.

RECOMMENDATIONS:

- (1) That Cabinet's recommendation to approve the council housing rent levels for 2023/24, as set in accordance with statutory requirements, be noted.**
- (2) That the Housing Revenue Account budgets and future years' projections be approved, as set out in *Appendix A*.**
- (3) That the Council Housing Capital Programme be approved, as set out in *Appendix B*.**
- (4) That the minimum level of HRA unallocated balances be increased to £750,000 from 01 April 2023, and that the full Statement on Reserves and Balances as set out at *Appendix C* be approved.**
- (5) That Council notes the Section 151 Officer's advice regarding robustness of budget estimates, the adequacy of reserves and balances and the affordability of borrowing.**

1 Introduction

- 1.1 Following its meeting on 7 February, Cabinet has now finalised its budget framework proposals for the Housing Revenue Account (HRA). These are all now reflected in the recommendations of this report.

2 Rent Policy and 30-Year Business Plan Impact

- 2.1 The Council has a legal requirement to maintain a separate ring-fenced account for the provision of local authority housing, known as the Housing Revenue Account

(HRA). This covers the maintenance and management of the Council's housing stock.

- 2.2 From 2020/21 the Rent Standard within the Social Housing Regulations applies to all Local Authorities. In previous years, the Council has adhered to this aspect of the regulations voluntarily, as a matter of good practice, and as such our approach to rent setting remains largely unchanged.
- 2.3 The financial year 2023/24 was to be the fourth of five years where the Council had the freedom to increase rent by a maximum of CPI+1% (CPI is the Consumer Price Index). For rent setting purposes for 2023/24, the September 2022 CPI figure of 10.1% is used, with forecast CPI used thereafter.
- 2.4 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.
- 2.5 Taking the above points into account, the Council's current rent policy is summarised as follows:

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| For general properties, average rent of £83.96 applies for 2023/24 ¹ | For sheltered and supported properties, average rent of £79.00 applies for 2023/24 |
| Following relevant properties becoming vacant, they will be re-let at 'formula rent' in line with previously approved policy. | |
| <u>For 2024/25 onwards</u> , it is assumed that council housing rents will increase by 3.0% year on year for a period of one year and 2.0% thereafter, subject to annual review of inflation forecasts, and any future determinations that may be issued by Government from time to time. | |

- 2.6 The 30-year business plan has been updated to cover the period to 2052/53, and the updated position over the life of the plan is a cumulative surplus of £25.1M.
- 2.7 It should be noted that the annual self-financing repayment of £1.041M ends from 31 March 2042.
- 2.8 It should be reinforced that the cumulative balance is primarily driven by Government's decisions on future rent policy. For simplicity, the business plan now assumes that rents will continue to increase by CPI plus 1% per year in 2024/25 with primarily CPI thereafter, but this is by no means certain. The risks surrounding this assumption must be appreciated.

3 Revenue Budget

- 3.1 The HRA revenue budget statement is attached at **Appendix A**.

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

3.2 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.
- 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 is due for 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.

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

4 **The Council Housing response to the Climate Emergency**

4.1 In response to the ongoing climate emergency, and the commitments set out by the Council in response, the Council Housing service has developed programmes of significant investment and activity in a number of areas which can be seen within the Cabinet Report. All of these areas of investment are built into the business planning and budgeting as outlined in this report.

5 **Capital Programme**

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

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

5.3 The Housing Team are 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 to inform future capital spend.

5.4 The 2023/24 capital programme includes no provision for any major refurbishment works on the Mainway Estate due to the ongoing regeneration project (see section 6).

5.5 Taking account of the above points, the total draft six-year programme for 2022/23 onwards now stands at £29.8M, the majority of which will be financed from revenue sources. There is no prudential borrowing requirement.

6 **Future Developments**

6.1 The City Council continues to have ambitions for the development of its own new affordable / social rented homes, which it is seeking to progress, this also seeks to offset the downward trend of lost Council Housing stock through Right to Buy sales. 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 four-bed development with community facility at Alder Grove, providing additional much-needed older persons accommodation.
- Progression to planning permission application for a collection of garage sites converted into single person / family accommodation.
- Progression of the wider Mainway masterplan through accelerated first phase planning application enabled through the purchase of the redundant element 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.

6.2 For clarity, no major capital works in relation to garage site conversions, Mainway or Canal Quarter are included in this report. Cyclical maintenance costs within dwellings continue to be included in the current budgeting process.

7 Provisions, Reserves and Balances

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

7.2 In terms of Balances, after reviewing the Housing Revenue Account in comparative terms and considering the key issues, assumptions and risks underlying the budget projections, the Section 151 Officer has advised increasing the minimum level of HRA Balances to £0.750M from 01 April 2023, to support the budget forecasts as part of the overall medium term financial planning for the HRA.

7.3 As at 31 March 2023, HRA Balances are forecast to be £517K, which is £17K above the 2022/23 recommended minimum level.

7.4 All other surplus resources are held in the Business Support Reserve. As at 31 March 2023, around £5.678M is expected to be available in this reserve. The first spending priority is still to support existing commitments over the lifetime of the 30-year Business Plan, the Governments rent setting policy for the final year of the current settlement and beyond will be closely monitored, although next years assumptions remain cautious but should provide the service with additional flexibility.

8 Details of Consultation

8.1 A consultation meeting was held with the District Wide Tenants' Forum on 19 January 2023, where the Neighbourhood and Support Services Manager presented the headlines of the report and answered questions from tenants and councillors.

8.2 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.

8.3 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.

9 Options and Options Analysis (including risk assessment)

9.1 Council may adjust its HRA revenue budget proposals, as long as the overall budget for 2023/24 balances and fits with its approved rent levels, which Council cannot change.

9.2 The options available in respect of the Capital Programme are:
i) To approve the programme in full, with the financing as set out
ii) To incorporate other increases or reductions to the programme, with appropriate sources of funding being identified which still meet the required health and safety obligations to tenants.

9.3 The options available in respect of the minimum level of HRA balances are to increase the level to £0.750M in line with the advice of the Section 151 Officer or adopt a different level. Should Members choose not to accept the advice on the level of balances, this should be recorded formally in the minutes of the meeting and it could have implications for the Council's financial standing, as assessed by its external auditor.

9.4 Any risks attached to the above would depend on measures Members proposed, and their impact on the council housing service and its tenants. As such, a full options analysis could only be undertaken once any alternative proposals are known, and Officers may require more time in order to do this.

Option 1: To note Cabinet's recommendation to approve the council housing rent levels for 2023/24; to approve the revenue budgets and capital programme, and the provisions, reserves and balances position (and their use), as set out; to note the Section 151 Officer's advice.

Advantages: Completion of the Housing Revenue Account's budget setting process for 2023/24, allowing the updating of the Council's associated financial strategy.

Disadvantages: None.

Risks: The HRA budget set out in this report is sustainable in the long term. The risk associated with Option 1 relates to any future Capital new-build projects (as referred to in section 6, above) and any borrowing or use of reserves in relation to this.

Option 2: To note Cabinet's recommendation to approve the council housing rent levels for 2023/24 but to propose alternatives to those outlined in Section 9 above, noting the following:

Council may adjust its HRA revenue budget proposals, as long as the overall budget for 2023/24 balances and fits with its approved rent levels, which Council cannot change.

Council may adjust its capital investment and financing proposals taking account of spending commitments and priorities, but its proposals for 2023/24 must balance.

Advantages: None.

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

Risks: Delay to the completion of the Housing Revenue Account's budget setting process for 2023/24. Inability to maximise service provision and deliver on Council, and housing related ambitions. Impact on housing service and council housing tenants unknown, but could impact on the health and safety of tenants.

10 Conclusion

- 10.1 This report provides an update on the council housing budgetary position and seeks Council's approval of Cabinet's budget proposals in relation to the Housing Revenue Account in order that the City Council can complete its budget setting for 2023/24 and update its financial strategy to 2028.

RELATIONSHIP TO POLICY FRAMEWORK

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

CONCLUSION OF IMPACT ASSESSMENT

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

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

LEGAL IMPLICATIONS

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

FINANCIAL IMPLICATIONS

As set out in the report.

OTHER RESOURCE IMPLICATIONS

Human Resources / Information Services / Property / Open Spaces:

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

arrangements are in hand to assess and address these.

SECTION 151 OFFICER'S COMMENTS

The Local Government Act 2003 placed explicit requirements on the s151 Officer to report on the robustness of the estimates included in the budget and on the adequacy of the Council's reserves; this requirement is addressed below. Previous Cabinet reports have already included some relevant details of this advice, together with the risks and assumptions underpinning the budget process so far.

Provisions, Reserves and Balances

- Specific HRA earmarked reserves and provisions are satisfactory at the levels currently proposed.
- An unallocated minimum balance of £0.750M for the Housing Revenue Account is a reasonable level to safeguard the Council's overall financial position, given other measures and safeguards in place, taking a medium to longer term view.

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

As a very simple measure, the inherent value of the risks facing the Council by far exceeds the total of all reserves and balances. Whilst it is not the case that all these risks could fall due immediately, Members should appreciate the need for holding balances and reserves more generally, and using them wisely. It is inappropriate to view simply 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 particular regard to the impact on housing rents for Council Housing investment. Affordability is ultimately determined by judgements on what is 'acceptable' - this will be influenced by public, political and national influences.

The factors that have been (and should be) taken into account in considering capital investment plans include the following.

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

The HRA has a Capital Financing Requirement which reflects underlying need to borrow. This is reviewed periodically to ensure that borrowing is, always, affordable, sustainable and prudent and a minimum revenue provision charge is made to the HRA each year to reflect the cost of borrowing.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Equality Impact Assessments for budget proposals.

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