

CABINET

Housing Revenue Account and Capital Programme 20 February 2024

Report of Chief Officer for Housing & Property and the Chief Officer Resources (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	<input type="checkbox"/>	Referral from Cabinet Member
Date of notice of forthcoming key decision	8 th December 2023			
This report is public				

RECOMMENDATIONS OF Councillor Jackson

- (1) That the minimum level of HRA unallocated balances be retained at £750,000 from 01 April 2024, as approved at 6th February 2024 Cabinet, 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.
- (2) That further to consideration on 6 February, the Housing Revenue Account budget for 2024/25 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. Rent setting and various other budget matters were approved at Cabinet on 6th February 2024 with these matters now being required to be referred 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 does pay into the Council's General Fund through contribution to support services

and corporate commitments use and receives payment back to reflect Public Realm services delivered on Council Housing estates to non-Council residents, as well as relevant management contributions.

2.0 Achievements 2023/24

2.1 Key achievements:

- 2023/24 has seen continued guidance and support to tenants around rent arrears prevention and management. Following record low current rent arrears figures in recent year, 2023/24 is expected to show an arrears increase of around 10% at year end, linked to cost of living challenges faced by tenants. This figure does still represent top quartile performance nationally.
- The Income Management Team continue to provide a support service to tenants in managing their rent arrears and other finances, however, where appropriate, legal remedies are used: a total of 19 court applications were made in response to tenant rent arrears, with 3 of these progressing to warrant/eviction stage.
- In supporting residents the Housing Team have helped secure an additional £61,600 for tenants through their benefit and other income maximisation work to date this year. In recognition of their work the Income Management Team also re-achieved HQN Maximising Income and Sustaining Tenancies accreditation. The team also presented at the Mobyssoft annual conference as a provider of best practice and high performance across the sector.
- A Tenancy Health Check was carried out for all new tenancies during 2023/24, to identify any risk factors to the success of the tenancy and identify and embed any early support needed.
- New furniture packages were provided to 85 households through the team's partnership with an external furniture package supplier, further promoting the creation of 'homes' rather than 'houses' and contributing to improved tenancy success.
- Following a full review of ASB service delivery a new Community Safety Team was created to deliver a proactive, visible, and harm and risk focussed ASB and Community Safety service. This included development of new ASB, Hate Crime and Domestic Violence Policies: due for publication in Quarter 4.
- Purchase of the Skerton High School site from Lancashire County Council as part of the wider redevelopment of Mainway, Lancaster. Planning permission for the site to be submitted as part of the wider redevelopment plans of Mainway.
- Team have secured funding through Brownfield Land Release Fund to support progress of demolition of former Skerton High School as part of wider Mainway Regeneration Plans
- Shortlisted for Landlord of the Year and Local Authority of the Year at North West Energy Efficiency Awards 2024.
- Delivery of free communal Wi-Fi in Ind. Living Schemes
- Introduced Council Housing Advisory Group comprising, Officers, Members, residents and third sector interested parties providing degree of governance, oversight and advice on the delivery of housing services.
- Secured £692,000 from Social Housing Decarbonisation Funding.
- Completion of exemplar A rated adapted property on The Greaves

- Quarter 3 saw the start on site of a new four bed modern energy efficient scheme at Alder Grove for older residents, including a new community provision for residents of the wider scheme.
- Development of a Climate Strategy specifically for Council Housing dwellings, due to be finalised by the end of March 2024.
- Significant planned maintenance works including 150 kitchen replacement completions by year end; completion of fencing programme at Higher Heysham; full replacement of railings and concrete walkways at Arcon House; re-roofing programme on Ryelands, smoke alarm installations on Vale and commencing at Caton, Halton and rural areas.
- Continued commitment to ensuring homes and services across Council Housing are safe with ongoing improvement and strengthening of property compliance. Over £1M invested in safety improvements works, include new fire doors, smoke seals and compartmentation works.
- First Tenant Satisfaction Measures (TSM) survey carried out in line with new tenant focussed approach to regulation from the Regulator of Social Housing (RSH). Satisfaction report and action plan to be published during Quarter 4.
- Development of new Tenant Voice Strategy: for publication during Quarter 4.

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
- Requirements from the Social Housing Act (2023) and the emerging revised Consumer Standards.
- The Building Safety Act (2023) 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 linked to regulation is:

- The introduction of Tenant Satisfaction Measures during 2023/24 which will be formally reported to the Regulator during 2024,
- The mandatory registration of high-rise buildings was completed in 2023 with safety case files to be compiled by the end of March 2024,
- Government-led professional standards review of housing professionals – currently awaiting further details,
- Ofsted-style inspections from the Regulator being introduced from April 2024, on a four-yearly cycle, and
- A renewed focus on the customer complaints process through the introduction of a joint complaints code with the Local Government Ombudsman.

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 2024/25 are:

Priority	
A sustainable district	<ul style="list-style-type: none"> • Continued investment across the council’s housing stock - see section 3 below. • 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 and the introduction of a Council Housing and Property Climate Strategy. • Work to commence on the provision of new affordable homes through delivery of Phase 1 of the Mainway Masterplan on the old Skerton High School site. • To submit a planning application for earmarked elements of Canal Quarter for affordable homes, as well as earmarked garage sites. • Delivery of new units of accommodation for older residents at Alder Grove.
An inclusive and prosperous local economy	<ul style="list-style-type: none"> • Local procurement of repairs (and other housing related) contracts. • Continue to provide apprenticeship opportunities for local residents and seek opportunities to promote housing career pathways to local young residents. • 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. • Seeking funds through government to invest in our stock. • Creation of service agreement between Council Housing and Public Realm to ensure delivery of grounds maintenance and other public realm services in line with tenant priorities – including improved transparency for tenants around this service delivery. •
Happy and healthy communities	<ul style="list-style-type: none"> • Supporting the work and continued development of resident scrutiny groups and creating opportunities for residents to contribute meaningfully to service development and the decision-making process. • TPAS accreditation – to ensure delivery of resident engagement adheres to best practice and is responsive to regulatory requirements around customer focus and the ‘Tenant Voice’. • Continued development and delivery of services in line with regulatory requirements and the specific outcomes of the new Consumer Standards. • Continued focus on reporting, recording, and remedial actions around damp and mould, ensuring strict

	<p>adherence to Government requirements around timescales to address problems.</p> <ul style="list-style-type: none"> • Continued support and development of the tenant Building Safety Group and Building Safety Strategies to ensure the safety of residents in communal apartment blocks. • Development of asset management programmes across housing stock following completion of 100% stock condition survey. • Facilitating (and funding) community specific, community led projects. • Continue to develop and improve the way the service manages ASB and nuisance, and community safety more generally, across all housing stock. • Continue to develop and improve the way the Council delivers and reports on its block cleaning approach.
<p>A co-operative, kind and responsible council</p>	<ul style="list-style-type: none"> • Ensure best use of housing stock and maximise the housing options available to tenants, including review of Housing Allocation Policy, and implementation and development of web based lettings systems. • Investing and developing in our staff • ‘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, including through the extension and further roll out of neighbourhood community plans. • Procurement of and early-stage implementation delivery of comprehensive new housing management IT systems. • Working with and listening to resident groups about what’s important to them, whilst supporting and encouraging others to be established. • 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. • Continuing to develop and support resident scrutiny groups and creating opportunities for resident’s voices to be heard. • Provision of funds for tenants to access training and education opportunities. • Embedding the Tenant Voice Strategy across the service, to ensure commitment to service wide service delivery in line with tenant needs and expectations.

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 2023/24.

Energy Performance Certificate (EPC) Band C Housing Stock

Lancaster City Council is in year 3 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. For 2023/24 £732k has been spent in delivering against these objectives, £277k of which will be funded through the Social Housing Decarbonisation Fund.

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, Lancaster City Council has been successful in gaining external funding through the Social Housing Decarb Fund WAVE2 programme. This has added matched co-funding of approximately £700k to our existing capital programme for energy efficiency works.

Five problematic housing types are targeted for improvement: off-gas, system-built homes and flats, solid wall, and poorly performing traditional. Whilst the initial bid for funding was successful, subsequent property inspections have required the consortium to submit a change request to the project funders, DESNZ. If successful, this will allow the council to focus on approximately 120 properties over two years.

Whole House Improvement programme

2023/24 will see delivery of at least 9 whole house improvements delivering 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.

This project will continue at a similar level through 2024/25, addressing low performing properties picked up through the void property process.

Loft Insulation

The minimum standard for loft insulation is to achieve at least 300mm. 2023/24 will see 77 new roofs insulated 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

Installations were completed this year as part of the projects at the Greaves, and Alder 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.

During 2023/24 a total of 270 'A' rated gas boilers will be installed by our gas partner EMCOR.

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. We are expecting to deliver over 200 home visits during 2023/24 to provide invaluable energy related advice to council tenants.

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

Electric Vehicles and charging points

Over 50% of all RMS fleet vehicles are now electric. Charging point provision has been created at White Lund Depot, and at Heaton House, Lancaster, and an increased number of charging points across the district are now provided through the work of the Council's Business Improvement and Project Delivery team. Home charging points for staff use are currently being explored.

We will continue to roll out the transition to electric vehicles.

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 currently under construction four new homes will be delivered at the Alder Grove site, which will utilise highly energy efficient modular

construction. These homes are expected to achieve 'A' rating and will include PV panels.

The transformation of 6 The Greaves into a fully accessible adapted property is of special note. The finished project achieved an EPC 'A' rating and features 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 2024/25 is the fifth of five years where the Council has the freedom to increase formula rent by a maximum of CPI+1% (CPI is the Consumer Price Index). For rent setting purposes for 2024/25, the September 2023 CPI figure of 6.7% is used, with forecast CPI of 2.0% used thereafter (being the target set by Government for the Bank of England's Monetary Policy Committee).

4.3 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 level¹.

4.1 All Council rents are 'social rent' and sit well 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)². We estimate that around 80% of tenants are in receipt of some form of HB or UC, in addition to this, those tenants who receive any proportion of help with their housing costs through HB or UC should also have some entitlement to the Council's council tax support scheme.

4.2 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)³
- Right to Buy (decrease in housing stock); as at Q3 a total of 12 Right-To-Buy completions have taken place in 2023/24. These sales have generated gross proceeds of £766K, of which a proportion is due to HM Treasury with the balance being reinvested in housing stock through the capital programme. Estimates assume 19 completions per year in future years.

For further details about risk factors see Appendix G.

4.3 Therefore, in line with government policy Cabinet has confirmed to set average council rents as follows, with referral on to full Council⁴:-

1 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 Regulator of Social Housing.

2 It is estimated that around 80% of tenants are in receipt of full or partial HB or UC – due to the housing element of UC being paid directly to tenants it is not fully clear the exact number.

³ 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 properties subject to planned capital projects (such as the Mainway project) have a negative impact on void rent loss.

4 Note that the above figures are presented on a 52-week (2023/24) or 53-week (2024/25) basis.

Note: Specific rents vary depending on property type / area / size: for general needs between £65.04 (for a bedsit at Mainway) and £139.71 (for a 3-bedroom adapted bungalow in Lancaster), and for Independent Living between £67.50 for a bedsit at Beck View and £108.32 for a two-bed flat at Artlebeck Close.

Property Type	2023/24	2024/25
General	£83.96	£90.93
Independent Living and Supported	£79.00	£86.07

5.0 Other Charges

- 5.1 For certain dwellings service charges are applied in addition to the rent charge to cover the cost of specific services. These include (but are not limited to) elements such as maintenance costs, cleaning, energy use within communal areas, communal boiler replacements, staffing costs within Independent Living Schemes, and CCTV.
- 5.2 Service charges are set to ensure they are sufficient to cover the cost of service provision, and that they are reasonable and transparent. Service charge elements are affected each year by variance in actual costs (such as energy provision, changes to service contracts, salary costs and cost of materials) and also a range of inflationary factors (General Inflationary Index, Building Cost Information Service (BCIS)). Costs of service provision have been reviewed for 2024/25.
- 5.3 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 7.7% in 2024/25), to help keep charges affordable.”⁵ 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 basis⁶.
- 5.4 For 2024/25 across all housing stock service charges will increase by an average 0.03%⁷. Within this average is a variation between charges applied to Independent Living (7.2% decrease) and General Needs (13.8% increase).⁸ Average service charge costs can be seen in the table below.

	2023/24	2024/25 ⁹
Avg weekly service charge per dwelling (General Needs)	£9.87	£11.00
Avg weekly service charge per dwelling (Independent Living)	£53.47	£48.60

⁵ Source: Policy statement on rents for social housing – Dec 2022

⁶ Source: National Housing Federation Briefing on Rent Standard 2020 - Jan 2020

⁷ Subject to further fluctuations in cost of service delivery

⁸ The most relevant factors affecting the service charge variations relate to staffing costs, cleaning contract costs, and communal electricity usage. The Building Cost Information Service (BCIS) inflation figure used to establish cost information within the construction industry is currently running at 3.1%. The General Inflation rate is 6.7% (CPI as at Sept 2023). Service charges within Independent Living are significantly impacted for 2024/25 by reduced energy costs for those tenants with communal heating systems and have reduced significantly since the widely reported increases seen since 2022.

⁹ For the purposes of rent and service charge setting 2024/25 is a 53-week year, while 2023/24 was a 52-week year. The fact that service charges are spread across an additional week in 2024/25 explains why the weekly figures in this table appear to show a smaller increase than described in para 5.4.

- 5.5 The impact of communal electricity costs on the service charge increase for general needs properties is significant and may be explainable by billing based on estimates rather than actuals. This is under review with the supplier and may reduce the general needs service charge before it is applied on 1st April 2024.
- 5.6 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.
- 5.7 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."
- 5.8 Garage rents have been subject to a rent freeze since 2020/21. Through work by the housing team, garage occupancy rates have improved in recent years from 80% occupancy (2021/22) to 86% (2022/23) and reaching 89% (during 2023/24). The most common reason for tenants terminating or refusing offers of garages, however, remains affordability.
- 5.9 For 2024/25 the threat to occupancy rates of a rent increase would potentially offset any benefits to income generation. Following review and benchmarking against other garage providers it was confirmed at Cabinet on 6th February 2024 that that they be subject to a further freeze for 2024/25. Opportunities for development and alternative use for garage sites are being explored.

6.0 Revenue Expenditure

- 6.1 The future year's estimates for 2024/25 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 £170K higher than previously estimated, as a result of the 2023/24 pay award, 2024/25 pay award assumptions and redirection of resources from Repairs & Maintenance to Housing Management in order to meet upcoming legislative changes.
 - Repairs and Maintenance decrease of around £136K due to redirection of resources to Housing Management in order to meet upcoming legislative changes.
 - Energy costs decrease of around £84K, largely rechargeable¹⁰.
 - Premises insurance reductions relating to the premium for council house properties.
 - Depreciation charge increase of around £1,554K off-set by a reduction in the additional contribution to the Major Repairs Reserve of £1,087K. Planned capital expenditure has not altered significantly (see Appendix D).

¹⁰ Energy costs are subject to regular fluctuation, and are monitored monthly. For 2024/25 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.

- 6.3 The table below lists the major assumptions that have been made for the 2024/25 budget.

	2024/25
Fees & Charges	Various
Inflation – Pay	5.9%
Employer Pensions Contribution	16.3%
Inflation – General (Minor Cost Centres)	2.8%
Inflation – Insurance	10.0%
Inflation – Utilities	Re-based at current prices
Interest Rate - Investments	4.5%

- 6.4 In summation, the 2024/25 revenue budget projected surplus is £96K, which is a reversal of the previously projected funding requirement of £239K, which was to be funded by the Business Support Reserve. The revised projection is largely due to the difference between CPI projections and the published September 2023 rate, off-set by the points described above (6.2), notably an increase in depreciation charges and the impact of pay awards.

7.0 Capital Expenditure

- 7.1 The ten-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 A number of programmes of work (value over £200K and key decisions over £250K) will be advised during 2024/25 and it was confirmed that the Chief Executive be delegated 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:
- Energy efficiency improvement works
 - Re-rendering works to properties at Hala
 - Whole House Major Voids works and refurbishment
 - External door replacement
 - Re-roofing of properties on Ryelands Estate (phase 2)
- 7.4 The capital programme includes no provision for any major refurbishment works on the Mainway estate due to the ongoing regeneration project (see section 8). Further Cabinet report(s) will be brought forward to seek approvals as plans progress.
- 7.5 The Housing Team are in the final stages of completing a full stock condition survey of council dwellings, therefore capital expenditure for the forthcoming year is restricted to the most essential as it is expected that the results from the surveys will help inform future capital spend.

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. The focus

for the next twelve months will see:

8.2 Mainway Masterplan:

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

8.3 Canal Quarter:

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

8.4 Garages:

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

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

8.6 While the design phase of the schemes continues, the decommissioning of properties on Mainway has now been factored into the estimates presented, over a five-year period, with no rental income being recognised for any existing units from July 2029.

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 maintaining the minimum level of HRA Balances at £750K from 01 April 2024 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.

Risk	Symptom of Risk	Balance Required £M
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
Aggregate Overspend if all of the above risks were to happen		0.750

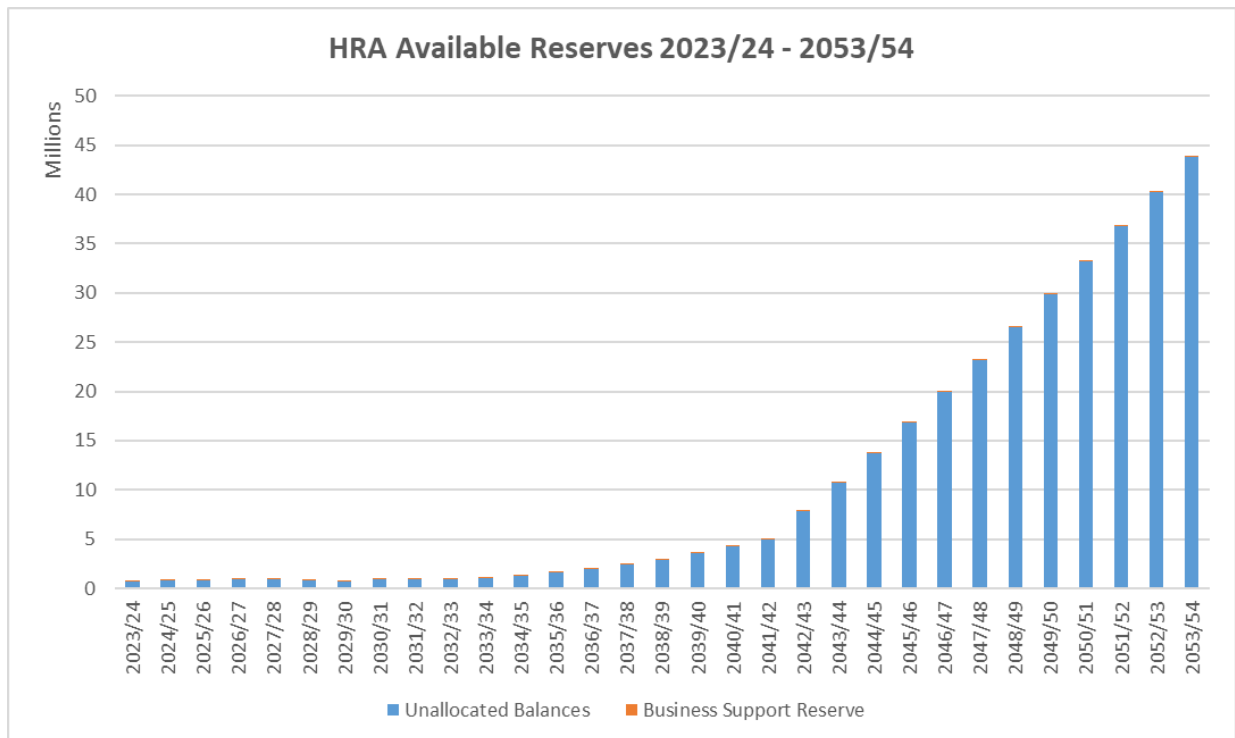
9.3 Draft statements on all reserves are attached at Appendix E(i) and Appendix E(ii). Levels are viewed as adequate for the period covered and Cabinet is asked to endorse this information, with the Statement being referred on to Council as part of the HRA budget proposals.

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 2023 to projections as at February this year.

30 Year Business Plan: Business Support Reserve and Unallocated Balances

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	30 Year Cumulative Total £'000
	£'000	£'000	£'000	£'000	£'000	£'000	
Business Support	2,104	1,796	1,628	1,628	1,576	1,304	1,304
Unallocated Balances	750	750	750	860	750	750	23,768
Projections as at February 2023	2,854	2,546	2,378	2,488	2,326	2,054	25,072
Business Support	35	35	35	35	35	35	13
Unallocated Balances	750	846	768	973	874	785	43,817
Projections as at February 2024	785	881	803	1,008	909	820	43,830
Overall Movement (Adverse) / Favourable	(2,069)	(1,665)	(1,575)	(1,480)	(1,417)	(1,234)	18,758



- 10.2 The unallocated balance is currently £624K. Once bolstered by a transfer during 2023/24 to meet the new minimum level, 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 £35K. This will be relied upon to support revenue spend in the medium term (currently 2029/30).
- 10.4 The increase in the projected balance at the end of the 30-year business plan is largely due to the year-on-year impact of the higher than previously assumed rent increase for 2024/25.
- 10.5 As previously discussed, in line with the previously agreed national rent settlement, rents have been set at CPI+1% for five years, with the exception of the 2023/24 Government-imposed cap of 7.0% rent increase for existing tenants. Largely due to fluctuations in CPI, 2024/25's rental income from dwellings is now forecast to be approximately £595K higher than estimated in the previous budget report. It has been assumed that increases will revert to CPI only from 2025/26 (forecast at 2.0%, being the target set by Government for the Bank of England's Monetary Policy Committee), but the risks surrounding these assumptions must be appreciated and the magnitude of impact of a small change within this area understood.
- 10.6 Due to the increase in depreciation charge to reflect recent actuals, the currently proposed capital programme does not fully utilise anticipated capital receipts or the funding available within the Major Repairs Reserve. Therefore, balances are forecast to increase over the five-year period, and it is estimated that £3,910K of useable capital receipts and £1,032K within the Major Repairs Reserve will have accumulated by 31 March 2029. This will be reviewed when the profile of future capital spend is prepared, following full analysis of the stock condition survey results.
- 10.7 Following the 2023/24 contribution of £600K to the ICT and Systems Improvement Reserve, it is proposed that the balance of £963K is used over a three-year period to purchase and implement new housing management

software to support delivery of modern, resident focussed housing services.

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 Chief Officer – Resources 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 Cabinet on 6th February 2024 confirmed the rent increase of 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.

11.2 In relation to garage rents, the previous decision was to freeze rents for 2023/24. In order to protect current occupancy and income levels, and in line with sector benchmarking, a further 12-month freeze was confirmed by Cabinet on 6th February 2024. 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 retain the level at £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.

	Option 1: That the Housing Revenue Account budget as laid out in the report is referred to Budget Council and Cabinet approve the provisions, reserves and balances position (and their use); the revenue budgets and capital programme	Option 2: To propose alternatives to those outlined in Section 11 above.
Advantages	That the Housing Revenue Account is able to deliver it's set out requirements as laid out in the report.	Unknown

Disadvantages	Increased rent levels for tenants.	Would require further options analysis
Risks Mitigation	The HRA budget set out in this report is sustainable in the long term. The risks associated with Option 1 are outlined in Appendix F – Risks and Assumptions.	Impact on housing service and 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.

12.0 Officer Preferred Option (and comments)

- 12.1 **Option 1:** Approve the budget as laid out in this report and approve the provisions, reserves and balances position (and their use); the revenue budgets and capital programme; as set out and refer onto full Council.
- 12.2 The Tenant Voice group were consulted on 1st February at their bi-monthly meeting, where budget headlines, including the proposed rent increase and significant areas of spend and investment, were presented by the Neighbourhood and Support Services Manager.
- 12.3 The Tenant Voice expressed their concern about the impact of the rent increase on tenants but understood and agreed that this was appropriate in order for continued delivery of services and future ambitions. They endorsed the rent setting proposal and other key areas within the budget.
- 12.4 Cabinet have been consulted on the budget and confirmed rent setting proposals and other budgetary matters at 6th February 2024 meeting.

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, seeking to meet Regulatory requirements and deliver safe and decent homes.

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

Legal Services have been consulted and have no comments to add

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

BACKGROUND PAPERS

See Appendices A-G

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