

# CABINET

## Housing Revenue Account and Capital Programme 14th January 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 to consider HRA revenue and capital budget proposals.				
Key Decision	X	Non-Key Decision		Referral from Cabinet Member
Date of notice of forthcoming key decision	16 <sup>th</sup> December 2024			
This report is public				

#### RECOMMENDATIONS OF Councillor Jackson

- (1) That council housing rents be set in accordance with statutory requirements as follows (subject to tenant consultation and ratification at February 11th 2025 Cabinet):
  - for existing tenancies, rents will increase by 2.7% from 7th April 2025
  - for new tenancies within 2025/26, rents will be set at 'formula rent'<sup>1</sup>
- (2) That garage rents be increased at CPI +1% in line with dwelling rents
- (3) That subject to the above, the resulting Housing Revenue Account budget for 2025/26 onwards, as set out at Appendix A, together with the resulting Capital Programme as set out at Appendix C, be considered by Cabinet, ahead of final presentation on 11th February 2025 and pending tenant consultation.

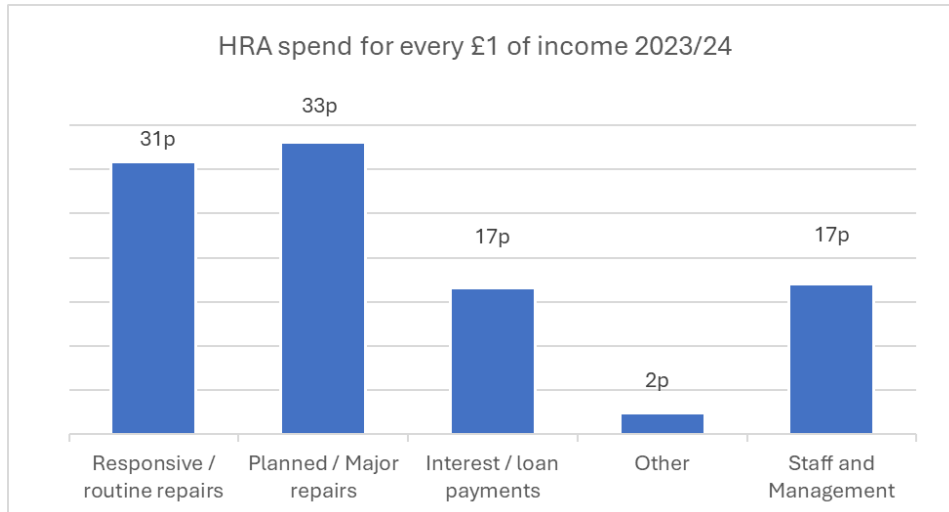
#### 1. Introduction

- 1.1 The Council is required under statutory provisions to maintain a separate ring-fenced account for the provision of local authority housing, known as the Housing Revenue Account (HRA). This covers the maintenance and management of the Council's housing stock.

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<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. The fact that the average rent increase between 2024/25 and 2025/26 is not *exactly* 2.7% is explained by the fact that some properties within year increase to 'formula rent' and therefore increase the figures used for comparison.

- 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 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.
- 1.4 Council housing provides decent, secure homes that are affordable to households on low to modest incomes. Across the country, though, many HRA Councils find themselves in a precarious financial position, struggling to maintain existing homes, alongside meeting the huge new demands to improve homes and the services provided to residents under new government, regulator and ombudsman requirements with no additional funding available. As such Lancaster City Council has joined over 100 other Councils in signing the 'Securing the Future of Council Housing' report commissioned by Southwark Council, setting out a practical, long-term plan for government to support the needed improvements and growth of Council Housing.
- 1.5 Over the past few years Lancaster City Council has sought to meet these increasing demands including, for example, through fire remediation and other compliance improvements; increased support for tenants; an increased focus on housing health and safety; specialist community safety services; and through provision of a face-to-face community presence in preparation for a new regulatory regime. This is while continuing to address both the Council's and governments ambitions of increasing social housing. Following significant interest rate rises and rent caps over recent years, this budget report outlines some short-term (1-2 year) financial challenges. These are projected to improve over the next 2-5 years.
- 1.6 It should be noted that within a number of financial years since the HRA self-financing settlement of 2012 the ability of the Council to raise rents in line with inflation has been restricted. For four years between 2016/17 and 2019/20 a government mandated rent reduction of 1% year on year was imposed. In addition, for the financial year 2023/24 the maximum rent increase was capped at 7% for existing tenants by the government, falling short of inflation which was running at 10.1% in Sept 2022 – the figure which would normally be used for the purpose of rent setting for the following April. These restrictions have removed tens of millions of pounds from the life of the HRA 30-year business plan.
- 1.7 The chart below, using year-end figures from 2023/24, gives an indication of how income received by the Housing Service is spent. For every pound of income around a third contributes to planned and major repairs; just under a third is spent on responsive repairs; and the remaining third funds staff and management, interest and loan payments, and other costs.



## 2. Achievements 2024/25

### 2.1. Key achievements:

- The Housing Support Team continued to support council tenants to sustain successful tenancies by, for example:
  - Securing an additional £363,000 in income through the first half of the year through benefit and other income maximisation work
  - Carrying out 151 Tenancy Health Checks, including all new tenancies, during the first half of the year
  - Carrying out drop-in sessions at independent living schemes to ensure support is available for those who most need it
  - Picking up a total of 136 new support cases during the first half of the year
- Continued delivery of a stock condition survey to all council homes, to support effective delivery of planned and capital programmes of maintenance work, in line with the regulator's requirements to 'know your stock'. 86% completion reached by the end of quarter 3.
- Continued embedding of the specialist community safety team and delivery of harm focussed services in response to anti-social behaviour, including:
  - Specialist training and BTEC qualification for team members
  - Development of cross service hoarding process to help support and tackle challenging cases
  - Advanced level tenancy fraud training carried out, in preparation for further work in this area by housing teams
  - Successful use of injunctions and granting of housing possession by the courts in support of the wellbeing of wider communities
- Further progress of the Mainway development has included planning permission being approved for the development of the former Skerton High School for a Council Housing scheme of 135 social and affordable new homes, and proposals for the wider Mainway Masterplan being presented to members of the Mainway Board.
- Plans to redevelop a number of existing garage sites for small scale Council Housing development has taken another step forward with the

submission of a planning application for four new Council Homes at Hastings Road in December 2024. A planning decision is anticipated by April 2025. Brownfield Land Release Funding has been secured to support this.

- Completion of exemplar A-rated four-unit development on Alder Grove (anticipated February 2025) using modern methods of construction (MMC).
- The Council Housing Income Management Team has continued to deliver sector leading performance, supporting tenants to successfully manage their rent accounts and sustain tenancies. Key achievements include:
  - Providing support and advice to tenants in receipt of benefits in navigating the 53-week rent year
  - Maintaining excellent performance around current tenant rent arrears
  - Securing £31,000 in additional benefits or support for tenants during the first half of the year
  - Retaining Maximising Income and Sustaining Tenancies accreditation through the Housing Quality Network (HQN)
- Mandatory Tenant Satisfaction Measures (TSM) survey carried out, showing improvements in satisfaction across all 12 survey questions compared to the previous 12 months. Overall satisfaction rose 5% to 77%, with indication suggesting this places Lancaster in the top 25% of local authorities nationally.
- Full in-house planned and responsive repairs service delivered, projecting an estimated 12,750 repairs completed across the year, a total of 97 kitchens replaced on a planned programme, and delivery of wider planned and capital programmes of works contracted out.
- High levels of compliance and reassurance against all key areas (gas, electrical, water, asbestos, fire, lifts, smoke and CO detection)
- Reviews and updates of a range of service policies and strategies, to be found on the Council Housing web pages, including development of new Tenant Voice Strategy and Building Safety Strategy
- Merge of council housing and wider council customer services to deliver a more resilient, face to face service to all residents: 8% more calls answered year on year, with reduced waiting times overall.
- Customer services recognised in the 'digital impact' category at the 2024 LGC awards
- Continued development and delivery of programmes of works which deliver in line with the Council's climate emergency ambitions (see section 3 below). Application submitted to secure £1.3M match funding from government's Warm Homes programme – improving the energy efficiency of c150 council homes raising to EPC C over the next three years
- Tenant-led scrutiny panel established, with first project including report and recommendations on Repairs and Maintenance completed.
- Wide range of community engagement activities supported including residents' groups; summer community fun day; litter picks; garden competition; skip days; kids pumpkin carving; Christmas gatherings; and consultation events.

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
- Changing legislation and anticipated changing legislation such as the forthcoming Awaab’s Law
- The Building Safety Act (2023) and Fire Safety Act (2021)

2.3. Of particular note linked to regulation is:

- The introduction of Tenant Satisfaction Measures during 2023/24. This year is the second year of data collection of which we have seen improved satisfaction across the board, whilst recognising there is more work to do – these results are formally reported to the Regulator during 2024. (Results can be found here: [Tenant Satisfaction Measures - Lancaster City Council](#))
- The mandatory registration of high-rise buildings was completed in 2023 with safety case files compiled at the end of March 2024 – call-in of these files is awaited,
- The ongoing Government-led professionalisation of the housing sector review – currently awaiting further details,
- The ongoing Government-led implementation of Awaab’s Law (linked with property condition against Housing Health and Safety Rating System hazards) – currently awaiting further details, as well as awaiting further details of an anticipated new Decent Homes Standard,
- Ofsted-style inspections from the Regulator being introduced from April 2024, on a four-yearly cycle, now coming to the end of the first year,
- Housing Ombudsman Spotlight reports into poor sector performance and accompanying self-assessments, and
- A renewed focus on the customer complaints process through the introduction of a joint complaints code with the Local Government and Social Care Ombudsman, and mandatory submission of self-assessments and annual reports. (Self-assessment and performance information can be found here: [Complaints - Lancaster City Council](#))

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 2025/26 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> </ul>

	<ul style="list-style-type: none"> <li>• Delivery of new energy efficient units of accommodation on Hastings Road.</li> </ul>
<p>An inclusive and prosperous local economy</p>	<ul style="list-style-type: none"> <li>• Local procurement of repairs (and other housing related) contracts.</li> <li>• Provision of apprenticeship opportunities for local residents and seek opportunities to promote housing career pathways to local young residents, both through us and our contractors.</li> <li>• Use of local suppliers within procurement rules (and where appropriate): for lower value contracts, use of local suppliers is guaranteed; for higher value 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>• 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.</li> </ul>
<p>Happy and healthy communities</p>	<ul style="list-style-type: none"> <li>• Supporting the work and continued development of resident scrutiny groups and Tenant Voice, co-creating opportunities for residents to contribute meaningfully to service development and the decision-making process.</li> <li>• 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’.</li> <li>• Continued development and delivery of services in line with regulatory requirements and the specific outcomes of the new Consumer Standards.</li> <li>• Continued focus on reporting, recording, and remedial actions in line with Awaab’s Law (when published), ensuring adherence to Government requirements around timescales and other requirements to address problems.</li> <li>• Continued support and development of the tenant Building Safety Group and Building Safety Strategies to ensure the safety of residents in communal apartment blocks.</li> <li>• Development of asset management programmes across housing stock following stock condition survey’s – ensuring data is kept up to date.</li> <li>• Facilitating (and funding) community specific, community led projects.</li> <li>• Continue to develop and improve the way the service manages ASB and nuisance, and community safety more generally, across all housing stock.</li> <li>• Continue to develop and improve the way the Council delivers and reports on its block cleaning approach.</li> </ul>

	<ul style="list-style-type: none"> <li>• Developing a smaller, stronger neighbourhood approach to housing management.</li> </ul>
A co-operative, kind and responsible council	<ul style="list-style-type: none"> <li>• Investing and developing in our 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, including through the extension and further roll out of neighbourhood community plans.</li> <li>• Implementation of early-stage delivery of comprehensive new housing management IT systems.</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>• Embedding the Tenant Voice Strategy across the service, to ensure commitment to service wide service delivery in line with tenant needs and expectations.</li> <li>• Ensuring Housing Ombudsman self-assessments are kept up to date.</li> <li>• Ensuring residents have opportunity to raise complaints and that the service listens, takes action, learns and shares information.</li> <li>• Review opportunities to undertake tenant census.</li> <li>• Implement RMS restructure – ensuring service delivers a tenant centred approach.</li> <li>• Develop robust standalone Assurance Framework for Council Housing.</li> </ul>

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

3.1. Housing has continued its programme of carbon reduction, energy efficiency measures and upgrades during 2024/25.

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

Lancaster City Council is in year 4 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 in line with Government requirements.

Lancaster City Council has submitted an application for Warms Homes match funding to improve circa 150 properties. This follows recent improvements to circa 130 properties following applications to Social Housing Decarb Fund and LAD funding.

Ongoing and further additional improvements will be sought through the range of measures 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**

Through 2024/25, Lancaster City Council has continued delivery of energy improvement measures using external funding through the Social Housing Decarb Fund Wave 2.1 programme. This has added matched co-funding of approximately £700k throughout the total duration of the project to our existing capital programme for energy efficiency works.

From our initial funding application, we are expecting 105 homes to receive a combined total of 245 installed measures which include insulation (external, internal and loft) as well solar PV installations. Whilst the funding will draw to a close in March 25, the council has also joined a consortium being led by Liverpool City Region Combined Authority (LCRCA) to bid for funding from the Warm Homes: Social Housing Fund. If successful, this will provide additional match co-funding for the continued delivery of energy efficient works for the period 2025-28

### **Whole House Improvement programme**

2024/25 will see delivery of at least 12 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 2025/26, 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. 2024/25 will see 86 new roofs insulated as part of phase 2 of the Ryelands roofing programme 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 to 64 properties have been identified and are underway through the Social Housing Decarb Fund Wave 2.1 programme referred to above. The Energy Support Officer continues to ensure there is 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 to replace 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 2024/25 a total of at least 350 '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 on course to exceed over 200 home visits during 2024/25 to provide invaluable energy related advice to council tenants.

To meet the anticipated increased demand, we continue to roll out energy advice through our media platforms and energy surgeries and have started working collaboratively with Green Rose and Citizens Advice to ensure tenants can benefit from tailored energy visits and resources.

### **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. Nearing completion are four new units of Independent Living Accommodation at Alder Grove which will utilise highly energy efficient modular construction. These homes are expected to achieve 'A' rating and will include PV panels.

### **Electrification of Repairs and Maintenance Service (RMS) fleet vehicles**

Currently 56% of the RMS fleet are now electric, with charging points provision having been created at White Lund Depot and 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.

## **4. 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. For the financial year 2025/26, the Regulator of Social Housing has confirmed that the Council has the freedom to increase formula rent by a maximum of CPI+1% (CPI is the Consumer Price Index). Subject to the outcome of the Government's consultation process, assumptions also include the additional 1% through to 2029/30, although an outcome may be a longer-term (10 year) settlement. For rent setting purposes for 2025/26, the September 2024 CPI figure of 1.7% 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 level<sup>2</sup>.
- 4.4. 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)<sup>3</sup>. 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.
- 4.5. Rental income is the main funding source for the HRA and there are factors that will influence the outturn position:
- Void levels and re-let times (equating to void rent loss/uncollectable rent)<sup>4</sup>  
In addition, changes to Council Tax rules on empty homes came into effect from 1st April 2024 meaning a 200% rate on homes empty for more than 12 months. This impacts the HRA in relation to long term voids empty as a result of regeneration projects.
  - Right to Buy (decrease in housing stock); as at Q3 a total of 7 Right-To-Buy completions have taken place in 2024/25. These sales have generated gross proceeds of £571K, of which a proportion is due to HM Treasury with the balance being reinvested in housing stock through the capital programme. Further to the recent changes to the RTB scheme, estimates assume 3 completions per year in future years.<sup>5</sup>

For further details about risk factors see Appendix F.

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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 Regulator of Social Housing.

<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 of UC being paid directly to tenants it is not fully clear the exact number.

<sup>4</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 properties subject to planned capital projects (such as the Mainway project) have a negative impact on void rent loss.

<sup>5</sup> Recent changes to legislation have seen RTB discounts reduce for applicants. Prior to this change we experienced a large number of applications which may impact the number of completions within 2025/26, with 49 currently working through the system (although it is anticipated some of these will not progress). NB: no applications – have been received since the legislative changes came into force.

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

<b>Property Type</b>	<b>2024/25</b>	<b>2025/26</b>
General	<b>£90.93</b>	<b>£93.91</b>
Independent Living and Supported	<b>£86.07</b>	<b>£89.01</b>

## 5. 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 2.7% in 2025/26), 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>.
- 5.4. For 2025/26 across all housing stock average service charges will remain the same (0% increase).<sup>9</sup> Within this average is a variation between charges applied to Independent Living (2.7% increase) and General Needs (12.3% decrease). Average service charge costs can be seen in the table below.

<sup>6</sup> Note that the above figures are presented on a 52-week (2025/26) or 53-week (2024/25) basis. Note: Specific rents vary depending on property type / area / size: for general needs between £66.80 (for a bedsit at Mainway) and £143.48 (for a 3-bedroom adapted bungalow in Lancaster), and for Independent Living between £69.32 for a bedsit at Beck View and £111.24 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

	2024/25	2025/26 <sup>10</sup>
Avg weekly service charge per dwelling (General Needs)	£12.69	£11.12
Avg weekly service charge per dwelling (Independent Living)	£48.78	£50.11

- 5.5. The decrease in General Needs service charge is largely explained by changes in the costs of communal electricity charges. The increase in Independent Living service charges largely relates to staffing costs and the Council's pay award: IL staff are support related and are therefore service chargeable.
- 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, following rent freezes since 2020/21 it is recommended that garage rents be increased by CPI +1% in line with dwelling rents. Benchmarking indicates that rent freezes have brought rents more in line with other providers as intended, that occupancy rates are stable, and rent increases are now appropriate to ensure required maintenance of garages.

## 6. Revenue Expenditure

6.1. The future years' estimates for 2025/26 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 £54K higher than previously estimated, due to the impact of National Insurance and other structure changes.
- Repairs and Maintenance net decrease of around £240K due to reallocation of in-house team to capital works, partly off-set by additional works funded from Planned Maintenance reserves, and the impact of National Insurance changes.
- Energy costs decrease of around £47K, largely rechargeable<sup>11</sup>.
- Premises insurance increase relating to the premium for council house properties.
- Depreciation charge increase of around £449K, following 2023/24 property revaluations.

6.3. The table below lists the major assumptions that have been made for the 2025/26 budget.

<sup>10</sup> For the purposes of rent and service charge setting 2024/25 is a 53-week year (with service charges collected over 49 weeks), while 2025/26 is a 52-week year (with service charges collected over 48 weeks).

<sup>11</sup> Energy costs are subject to regular fluctuation, and are monitored monthly. 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. The Income Management team actively supports tenants to ensure government support around energy costs is received and understood.

	2025/26
Fees & Charges	Various
Inflation – Pay	2.50%
Employer Pensions Contribution	16.30%
Inflation – General (Minor Cost Centres)	2.60%
Inflation – Insurance	10.00%
Inflation – Utilities	Re-based at current prices
Interest Rate - Investments	3.50%

6.4. In summation, the 2025/26 revenue budget projected surplus is £85K, which is a reversal of the previously projected funding requirement of £78K. The revised projection is largely due to the additional 1% increase to dwelling rents, as permitted by the Regulator of Social Housing’s guidance, in combination with the points described above (6.2), notably a reduction in revenue Repairs & Maintenance through reallocation of the in-house team to capital works, off-set by works to be funded from Planned Maintenance reserves and an increase in depreciation charges.

## 7. 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. Future years’ capital expenditure is informed by the completion of a full stock condition survey. Expenditure within 2025/26 reflects the priority areas coming from that survey while further refinement of capital expenditure is underway and will be reflected in subsequent years’ capital programmes in due course.
- 7.4. The capital programme includes some provision for cyclical programmes of work on Mainway. Work is underway to define the scale and nature of this in the context of the ongoing Mainway regeneration project.

## 8. 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 2024/25 we secured planning permission for the former Skerton High School development. This coming year will focus on the development of a full business case and procurement strategy.
  - During the last 12 months changes within Homes England have resulted in funding applications for larger schemes currently being paused. We will await further announcements in the Spring budget which is expected to provide further information on future funding opportunities.

- The progression of the wider Mainway Masterplan is expected to continue into the start of 2025/26.
- While the design phase of the wider scheme continues, the decommissioning of properties on Mainway is factored into the estimates presented, over the coming years, with no rental income being recognised for any existing units from April 2030 currently.

#### 8.3 Canal Quarter:

- Work is currently paused whilst the progress of a car parking strategy continues to be refined.

#### 8.4 Garages:

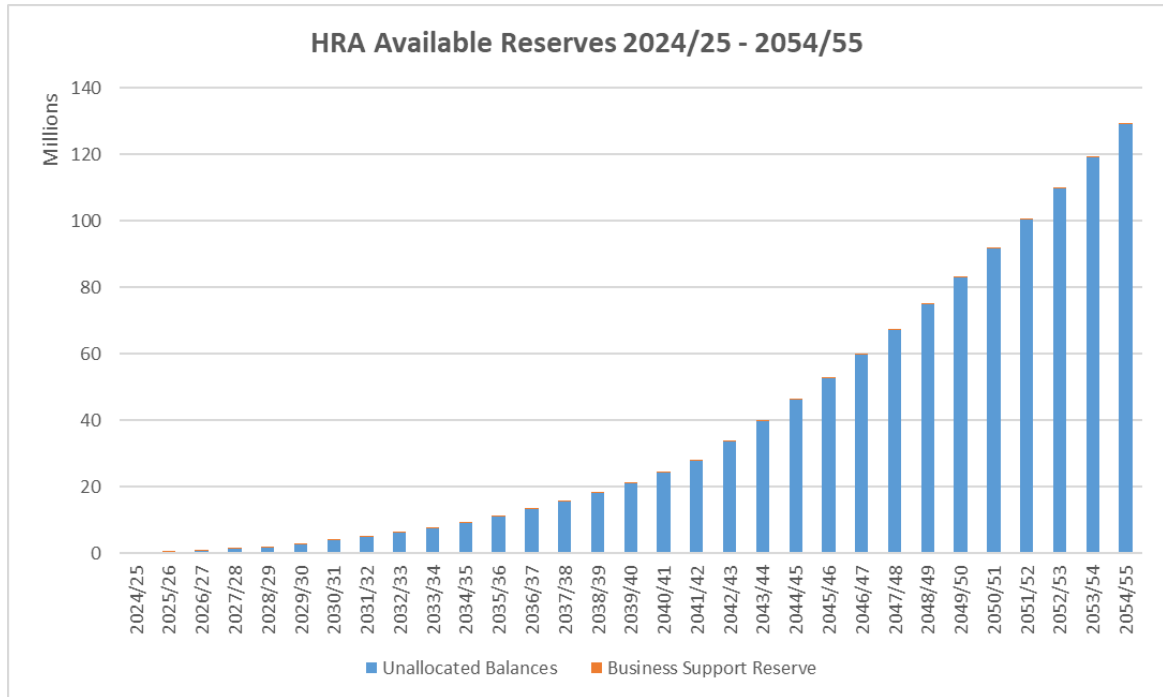
- Work to advance Council Housing schemes on existing garage sites continues. In 2024, the Council secured Brownfield Land Release Funding to support the development on Hastings Road for four properties. The outcome of a planning application on this site is currently awaited and it is hoped that once confirmed work to progress to a start of site within the financial year will be realised. This would be the first of the Council's garage sites from a programme to follow this approach, with further opportunities to progress in future years.

### 9. Business Planning & Future Risks

- 9.1. 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 2024 to projections as at January this year.

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

	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	30 Year Cumulative Total £'000
Business Support	35	35	35	35	35	13	13
Unallocated Balances	846	768	973	874	785	750	43,817
<b>Projections as at February 2024</b>	<b>881</b>	<b>803</b>	<b>1,008</b>	<b>909</b>	<b>820</b>	<b>763</b>	<b>43,830</b>
Business Support	253	253	253	253	253	253	253
Unallocated Balances	130	215	562	1,248	1,723	2,567	129,209
<b>Projections as at January 2025</b>	<b>383</b>	<b>468</b>	<b>815</b>	<b>1,501</b>	<b>1,976</b>	<b>2,820</b>	<b>129,462</b>
<b>Overall Movement (Adverse) / Favourable</b>	<b>(498)</b>	<b>(335)</b>	<b>(193)</b>	<b>592</b>	<b>1,156</b>	<b>2,057</b>	<b>85,632</b>



- 9.2. The unallocated balance is currently £750K, the recommended minimum level. As stated in the Delivering Our Priorities report presented to Cabinet on 3rd December, the projected net overspend for 2024/25 will cause HRA unallocated balances to fall below the recommended minimum level, largely due to the anticipated increase in depreciation charges. The balances shown above are based on 2024/25's Quarter 2 projected outturns and will be updated for Quarter 3 for final presentation of the Housing Revenue Account budget in February. Based on current assumptions, reserves will be depleted to the recommended minimum level by the close of 2027/28, and at no subsequent point within the 30-year business plan do they breach the £750K lower limit again.
- 9.3. The Business Support Reserve has a current unallocated balance of £253K. This will be relied upon to support the revenue overspend in 2024/25.
- 9.4. Additional earmarked reserves exist (see Appendix E(i) for more details). These reserves are earmarked for specific purposes, but not formally ring fenced.
- 9.5. 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 2025/26, with an additional 1% increase being included in assumptions through to 2029/30.
- 9.6. As previously discussed, in line with the Regulator of Social Housing's guidance, rents have been set at CPI+1%. Largely due to fluctuations in CPI, 2025/26's rental income from dwellings is now forecast to be approximately £100K higher than estimated in the previous budget report. It has been assumed that increases will revert to CPI only from 2030/31 (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.
- 9.7. Due to the increase in depreciation charge to reflect 2023/24 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 £801K of useable capital receipts and £1,655K within the Major Repairs Reserve will have accumulated by 31 March 2030. This will be reviewed when the profile of future capital spend is prepared, following further refinement of subsequent years' capital programmes.

- 9.8. It is also worth noting that as at 1<sup>st</sup> April 2024, £1,082K of Retained Right to Buy ("1-4-1") receipts were held, to be used for increasing housing stock. The Capital Programme Mid-Year Review 2024/25 approved by Council on 13<sup>th</sup> November included the utilisation of £700K to acquire properties within 2024/25, with a further £250K earmarked for this purpose in 2025/26 (see Appendix C). Following changes made by the new Government, our "1-4-1" balance will continue to grow, dependent on future RTB sales.
- 9.9. 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.

## 10. Options and Options Analysis (including risk assessment)

- 10.1. The options with regards to rent setting are set out under section 4, 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 wider legislative requirements.
- 10.2. In relation to garage rents, it is recommended that following recent rent freezes an increase in line with dwelling rent increases is appropriate and will support maintenance requirements without adversely impacting occupancy levels.
- 10.3. The provision, reserves and balances position (and their use); Revenue budgets; Capital Programme; and other wider budget considerations referred to in this report will be presented fully to Cabinet on 11<sup>th</sup> February 2025.

	<b>Option 1:</b> Set housing and garage rent levels as set out in this report	<b>Option 2:</b> To propose alternatives to those outlined in Section 11 above.
Advantages	Increased rental income supports the Council to deliver against its Regulatory requirements and ensuring homes are safe and decent.	Unknown
Disadvantages	Increased rent levels for tenants.	Would require further options analysis
Risks / Mitigation	The HRA budget outlined in this report and to be presented to Cabinet in February 2025 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'



	<p>In addition, the contents of this report have not yet been presented to tenants for consultation. This consultation will take place later in January 2025 and details will be included in February 2025 report.</p>	<p>by government.</p>
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**11. Officer Preferred Option (and comments)**

11.1. **Option 1:** Set housing and garage rent levels as set out in this report in advance of consideration of wider HRA budget at February 11<sup>th</sup> 2025 Cabinet.

**12. Conclusion**

- 12.1. The report highlights challenges faced within the current economic climate, particularly in the context of the increased regulatory and legislative requirements being placed on the social housing sector.
- 12.2. The longer-term financial forecasts contain numerous estimates and assumptions, and the service remains attuned to the risks contained within Appendix F, and in particular the impacts of further legislative and regulatory change which could affect business planning within the HRA.
- 12.3. Lancaster City Council’s Housing Service remains ambitious, while continuing to operate a sensible but forward-looking approach, seeking to meet Regulatory requirements and deliver safe and decent homes.

<p><b>RELATIONSHIP TO POLICY FRAMEWORK</b></p> <p>The budget represents, in financial terms, what the Council is seeking to achieve through its approved Housing Strategy in relation to council housing.</p>
<p><b>CONCLUSION OF IMPACT ASSESSMENT (including Health &amp; Safety, Equality &amp; Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing)</b></p> <p>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.</p> <p><b>Climate:</b> 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</p> <p><b>Wellbeing &amp; Social Value:</b> positive impacts identified via additional budget proposals. See appendix G for details.</p> <p><b>Health and Safety:</b> 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.</p> <p><b>Community Safety:</b> 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.</p>

**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

**S151 OFFICER'S COMMENTS**

Like all Councils, Lancaster City faces increased financial pressures and uncertainty because of the impact of the ongoing cost of living crisis and the effect it has on significant areas of expenditure. These challenges are particularly prevalent in the HRA which has seen increased expenditure coupled with high demand and a reduction in income through effective capping of rent increases.

The Local Government Act 2003 places explicit requirements on the s151 Officer to report annually on the robustness of the estimates included in the budget and on the adequacy of the Council's reserves. The recommendation of a minimum level of unallocated reserves acts as an early warning that Council is facing financial pressure, and that action need to be taken to address the decline. For 2024/25 the s151 Officer set the minimum level of HRA unallocated balances at £0.750M.

The reports highlights that based on current projections the level of reserves will drop to £0.130M in 2024/25 and remain below the minimum level until 2027/28. The report articulates a number of reasons for this, most notably an increase in the depreciation charge. However, this is not the sole reason, as there has been significant expenditure funded from reserves in recent years. It should be noted that this is an interim position and Officers and Members are working on a variety of options that should see reserves maintained above the £0.750M minimum over a shorter time frame.

**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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