

**Housing Revenue Account
Budget Framework 2025 to 2030
26 February 2025**

Report of Cabinet

PURPOSE OF REPORT

To present Cabinet's final budget proposals in relation to the Housing Revenue Account in order that the City Council can complete its budget setting for 2025/26 and update its financial strategy to 2030.

This report is public.

RECOMMENDATIONS:

- (1) That Cabinet's recommendation to approve the council housing rent levels for 2025/26, as set in accordance with statutory requirements, be noted.
- (2) That the Housing Revenue Account budgets and future years' projections be approved, as set out in *Appendix A*.
- (3) That the Council Housing Capital Programme be approved, as set out in *Appendix B*.
- (4) That the minimum level of HRA unallocated balances be retained at £750,000 from 01 April 2025, and that the full Statement on Reserves and Balances as set out at *Appendix C* be approved.
- (5) That Council notes the Section 151 Officer's advice regarding robustness of budget estimates, the adequacy of reserves and balances and the affordability of borrowing.

1 Introduction

- 1.1 Following its meeting on 11 February, Cabinet has now finalised its budget framework proposals for the Housing Revenue Account (HRA). These are all now reflected in the recommendations of this report.

2 Rent Policy and 30-Year Business Plan Impact

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

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

- 2.2 From 2020/21 the Rent Standard within the Social Housing Regulations applies to all Local Authorities. In previous years, the Council has adhered to this aspect of the regulations voluntarily, as a matter of good practice, and as such our approach to rent setting remains largely unchanged.
- 2.3 The financial year 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).
- 2.4 Taking the above points into account, the Council's current rent policy is summarised as follows:

For general properties, average rent of £93.91 applies for 2025/26 ¹	For independent living and supported properties, average rent of £89.01 applies for 2025/26
Following relevant properties becoming vacant, they will be re-let at 'formula rent' in line with previously approved policy.	
<u>For 2026/27 onwards</u> , it is assumed that council housing rents will increase by 3.0% year on year until 2029/30 and 2.0% year on year thereafter, subject to annual review of inflation forecasts, and any future determinations that may be issued by Government from time to time.	

- 2.5 The 30-year business plan has been updated to cover the period to 2054/55, and the updated position over the life of the plan is a cumulative surplus of £128.6M.
- 2.6 It should be noted that the annual self-financing repayment of £1.041M ends from 31 March 2042.
- 2.7 It should be reinforced that the cumulative balance is primarily driven by Government's decisions on future rent policy. For simplicity, the business plan now assumes that rents will continue to increase by CPI of 2.0% (being the target set by Government for the Bank of England's Monetary Policy Committee) per year, but this is by no means certain. The risks surrounding this assumption must be appreciated.

3 Revenue Budget

- 3.1 The HRA revenue budget statement is attached at **Appendix A**.
- 3.2 Key achievements:

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

- 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 March 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.

3.3 Looking ahead - key examples of ongoing service delivery and future planning developed in line with the Corporate Plan, Council priorities and forthcoming social housing legislation and regulation can be found within the Cabinet report of 11 February 2025.

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

4.1 In response to the ongoing climate emergency, and the commitments set out by the Council in response, the Council Housing service has developed programmes of significant investment and activity in a number of areas which can be seen within the Cabinet Report of 11 February 2025. All of these areas of investment are built into the business planning and budgeting as outlined in this report.

5 **Capital Programme**

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

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

5.3 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.

5.4 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.

5.5 Taking account of the above points, the total draft ten-year programme for 2025/26 onwards now stands at £43.9M, the majority of which will be financed from revenue sources. There is no prudential borrowing requirement.

6 Future Developments

6.1 The City Council continues to have ambitions for the development of its own new affordable / social rented homes which it is seeking to progress. The focus for the next twelve months will see:

6.2 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.

6.3 Canal Quarter:

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

6.4 Garages:

- Work to advance Council Housing schemes on existing garage sites continues. In 2024, the Council secured Brownfield Land Release Funding to support this work. The most advance scheme is a proposed 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 on 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.

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

7 Provisions, Reserves and Balances

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

7.2 In terms of Balances, after reviewing the Housing Revenue Account 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 £0.750M from 01 April 2025 to support the budget forecasts, as part of the overall medium term financial planning for the HRA.

- 7.3 As at 31 March 2025, HRA Balances are forecast to be £0.076M.
- 7.4 All other surplus resources are held in the Business Support Reserve. As at 31 March 2025, around £0.119M is expected to be available in this reserve. This may be relied upon to support the revenue overspend in 2024/25.

8 Details of Consultation

- 8.1 The budget headlines were presented to the Tenant Voice meeting on 30 January 2025 who were broadly in agreement with the proposals described, including the rent increase. There was, however, a range of debate which should be noted including:
- That details of planned maintenance and capital programmes be presented to a future meeting of the Tenant Voice
 - That the housing service should remain focussed on improving performance to ensure value for money in the context of a rent increase.

- 8.2 The budget headlines and the wider context of housing finances were presented and discussed at the Council Housing Advisory Group (CHAG) on 31 January 2025.

9 Options and Options Analysis (including risk assessment)

- 9.1 Council may adjust its HRA revenue budget proposals, as long as the overall budget for 2025/26 balances and fits with its approved rent levels, which Council cannot change.
- 9.2 The options available in respect of the Capital Programme are:
- i) To approve the programme in full, with the financing as set out
 - ii) To incorporate other increases or reductions to the programme, with appropriate sources of funding being identified which still meet the required health and safety obligations to tenants.
- 9.3 The options available in respect of the minimum level of HRA balances are to retain the level at £0.750M in line with the advice of the Section 151 Officer or adopt a different level. Should Members choose not to accept the advice on the level of balances, this should be recorded formally in the minutes of the meeting and it could have implications for the Council's financial standing, as assessed by its external auditor.
- 9.4 Any risks attached to the above would depend on measures Members proposed, and their impact on the council housing service and its tenants. As such, a full options analysis could only be undertaken once any alternative proposals are known, and Officers may require more time in order to do this.

Option 1: To note Cabinet's recommendation to approve the council housing rent levels for 2025/26; to approve the revenue budgets and capital programme, and the provisions, reserves and balances position (and their use), as set out; to note the Section 151 Officer's advice.

Advantages: Completion of the Housing Revenue Account's budget setting process for 2025/26, allowing the updating of the Council's associated financial strategy.

Disadvantages: None.

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

Option 2: To note Cabinet’s recommendation to approve the council housing rent levels for 2025/26 but to propose alternatives to those outlined in Section 9 above, noting the following:

Council may adjust its HRA revenue budget proposals, as long as the overall budget for 2025/26 balances and fits with its approved rent levels, which Council cannot change.

Council may adjust its capital investment and financing proposals taking account of spending commitments and priorities, but its proposals for 2025/26 must balance.

Advantages: None.

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

Risks: Delay to the completion of the Housing Revenue Account’s budget setting process for 2025/26. Inability to maximise service provision and deliver on Council, and housing related ambitions. Impact on housing service and council housing tenants unknown but could impact on the health and safety of tenants.

10 Conclusion

- 10.1 This report provides an update on the council housing budgetary position and seeks Council’s approval of Cabinet’s budget proposals in relation to the Housing Revenue Account in order that the City Council can complete its budget setting for 2025/26 and update its financial strategy to 2030.

RELATIONSHIP TO POLICY FRAMEWORK

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

CONCLUSION OF IMPACT ASSESSMENT

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

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

LEGAL IMPLICATIONS

Legal Services have been consulted and are content with the report. Officers will need to ensure that the statutory process for increasing council housing rent levels are adhered to.

FINANCIAL IMPLICATIONS

As set out in the report.

OTHER RESOURCE IMPLICATIONS**Human Resources / Information Services / Property / Open Spaces:**

None identified.

SECTION 151 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 2025/26 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 £0.076M 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 the HRA holds a number of non-ringfenced reserves such as the Business Support reserve (£0.119M) and Flats Planned Maintenance Reserve £0.309M and whilst the combined total would remain below the minimum, they could be utilised should there be a further deterioration in the financial position. This would however signal the end of available reserve funds within the HRA, and significant action would be taken. In addition, the use of any non-ringfenced reserves also impacts on the ability to undertake the purpose for which they were originally established.

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 reminds Council that the decisions (recommendations 2 and 4) fall within the Local Authorities (Standing Orders) (Amendment) (England) 2014 and Rule 19.7 of the Council Procedure Rules, and accordingly a recorded vote should be taken.

BACKGROUND PAPERS

Equality Impact Assessments for budget proposals.

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