Appendix B

2016/17 BUDGET
HOUSING REVENUE ACCOUNT – RISK & ASSUMPTIONS
FOR CONSIDERATION BY CABINET 19 JANUARY 2016

LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside

RISK AREA	NOTES/DETAILS
Self financing	Under Part VI of the Local Government and Housing Act 1989 a local authority has duty to keep a HRA as a ring fenced account and has a duty to ensure that it does not go into deficit. Sufficient funds need to be set aside within the Revenue Budget / Major Repairs Reserve in order to ensure that the 30 Year HRA Capital Programme can continue to be financed. Sufficient funds need to be set aside within the Business Support Reserve in order to ensure that the Council's programme for new build council housing and scheme of acquisition of ex-council housing can be fulfilled. Recent Government policy changes within the Welfare Reform and Work Bill and the Housing and Planning Bill introduce currently unquantifiable future financial risks. Robust business planning arrangements will need to be maintained that take into account debt financing, stock condition, service budgetary needs, and ongoing Government policy, around rents and inflation.
Rent policy	The Council has adopted a medium term financial strategy and has agreed to set a rent policy that supports the future investment needs of its HRA housing stock, and will enable the Council to consider council housing in a wider regeneration context. The Council is committed to maintaining decent homes, and to building and acquiring new homes This was originally predicated on Government rent policy guidelines. Originally the Government assumed, in its calculation of the debt settlement for self-financing, and future financing the council would increase its rents at RPI + 1%. These policy guidelines were amended by Government for 2015 onwards to CPI (at September of the previous year) + 1% annually, for ten years. In May 2015 it announced that it was going to limit rents for the next 4 years commencing 2016/17 and statutorily impose rent decreases of 1% per annum. This is currently progressing through Parliament in the Welfare Reform and Work Bill. Government rent setting policy after this date is currently unknown and introduces unquantifiable future financial risks.
Income recovery	The Government legislation and further welfare reforms will present a higher risk to levels of rent collection and that the council may need to increase the contribution to the Bad Debts Provision to reflect future arrears trends. There will be a negative effect on the ability to sustain future years' budgets if income recovery deteriorates. Adequate Bad Debts Provision will be provided for within the HRA, and the level is kept under review. The income management team may need to be strengthened to maximise recovery of income.
Void levels	Management of voids remains a high priority to ensure that rent loss through voids is minimised. Should turnover increase greater allowance may need to be made within the budget for loss of rental income due to voids.
Reduced demand	Overall demand for council housing remain high, and is particularly high for one and two bedroom properties. This demand has informed the Council's decision to give priority to building one bedroom accommodation in any new build programme or acquisition scheme. However, again current proposed Government legislation will impact on the council's ability to meet this demand. Overall demand across the council housing stock is monitored and informs the asset management plans.

Stock reductions	The rate of sales in 2015/16 has increased however the numbers are still low compared with historic levels of sales. However it is anticipated that this trend is likely to continue in the medium term leading to future projected rental income levels being reduced. Low sales levels leads to lower levels of capital receipts. Sales impact on the revenue position as income is reduced but many costs are fixed. The Government is also introducing through legislation the enforced sale of high value council homes as they become vacant. The Council will not keep the capital receipt and there will be a loss of rental income. The financial effect of this on the HRA is currently not quantifiable. The Government's objective is to increase the level of owner occupation through these measures, and continues to promote the RTB Scheme. Significant increase in RTB sale would reduce rental streams that would lead to deterioration in the HRA budgetary position, and the viability of the HRA, unless measures could be taken to reduce costs within the HRA.
Additional capital requirements	Legislation, changes in health and safety standards or the discovery of previously unknown defects may require additional capital expenditure. This is exampled by the need to increase expenditure on fire precaution works, asbestos management, and the managing the risk of legionella. These have been reflected in the capital programme. The Council still need to finalise the analysis of the stock condition survey to ensure the asset register and asset management plans correctly identify the investment needs and programmes. These requirements will be reviewed and reflected in the 30 year HRA Business Plan.
Major disasters	Major disasters are generally covered by insurance. The Government also provides support for uninsurable losses incurred by local authorities through the Bellwin scheme.
Effect of Legislation /Regulation	Implications of new legislation / regulation or changes to existing legislation / regulation can present significant new financial risks. The current legislative programme of Government, within the Welfare Reform and Work Bill and the Housing and Planning Bill, has in effect reopened the HRA self-financing debt settlement and impacts on the self-financing regime. This will present significant new financial challenges and risks to the Council's HRA, and corrective actions will need to be taken to avoid the HRA going into deficit in future years.
Other events	Lancashire County Council are continuing to reconfigure their commissioning strategy for older people service, and the County have indicated that they will cease funding sheltered housing support from 2017/18. Service provision and funding relating to sheltered housing is being reassessed, and reconfigured to mitigate the impact on sheltered housing tenants.