Appendix B

2017/18 BUDGET
HOUSING REVENUE ACCOUNT – RISK & ASSUMPTIONS
FOR CONSIDERATION BY CABINET 17 JANUARY 2017

LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside

RISK AREA	NOTES/DETAILS
Self financing	Recent Government policy changes within the Welfare Reform and Work Act and the Housing and Planning Act have introduced significant challenges and future financial risks to the council's HRA removing local discretion to set rent levels. Under Part VI of the Local Government and Housing Act 1989 a local authority has a duty to keep a HRA as a ring fenced account and has a duty to ensure that it does not go into deficit. Robust business and financial planning arrangements need to be maintained that take into account service budgetary needs, debt financing, stock condition, and ongoing Government social housing rent policy.
Rent policy	The council's rent setting policy originally predicated on Government rent policy guidelines and the freedoms introduced under the self-financing regime in 2011. The Council had previously agreed to set a rent policy which supported the future investment needs of its HRA housing stock, and enabled the Council to consider council housing in a wider regeneration context. The Council remains committed to maintaining decent homes, and aspires to build and acquire new homes. Originally the Government under its guidelines for rent setting and to support 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 from 2015 onwards for rents to increase by CPI (at September of the previous year) + 1% annually, for ten years. However, in May 2015 the Government announced that it was going to statutorily limit rents for the next 4 years commencing 2016/17 and statutorily impose rent decreases of 1% per annum. Government rent setting policy after this date is currently unknown and introduces unquantifiable future financial risks.
Income recovery	Government legislation and further welfare reforms (including further caps on the maximum amount of welfare benefit tenants can receive and the introduction of Local Housing Allowance caps to the social housing sector) continue to present a higher risk to levels of rent collection and the potential need to increase further the contributions to the Bad Debts Provision. There will be continuing 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. To mitigate against these increase risks the income management team is to be strengthened to maximise recovery of income, and other additional resources are to be put in place to work with households who are facing increasing financial challenges.
Void levels	Management of voids is an increasing 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. Additional resources have been approved to better co-ordinate the management of voids to mitigate against this risk and to achieve a reduction in income losses 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 has impacted 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 2016/17 remains relatively low compared with historic levels of sales. However any sales lead to future projected rental income levels being reduced. Low sales levels also lead to lower levels of capital receipts. Sales also 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 higher value council homes as they become vacant. To date the Government has not announced how this will operate but the Council will not keep the capital receipt and there will be a loss of rental income. The financial effect of this Government policy 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. The Council has increased its expenditure on fire precaution works, asbestos management, and the managing the risk of legionella. The Council still needs to ensure the asset register and asset management plans correctly identify the investment needs and programmes. Any requirements identified 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 legislative programme of Government, within the Welfare Reform and Work Act and the Housing and Planning Act, may be considered as undermining the HRA self-financing debt settlement / self-financing regime, and continues to present significant new financial challenges and risks to the Council's HRA. Ongoing, corrective actions may need to be taken to avoid the HRA going into deficit in future years, especially if further rent constraints are brought in.
Other events	Lancashire County Council are continuing to reconfigure their commissioning strategy for older people service, and the County have confirmed that they will cease funding sheltered housing support from 2017/18. Service provision and funding relating to sheltered housing has been reassessed, and reconfigured to mitigate the impact on the financial support sheltered housing tenants' receive.