2022/23 BUDGET

HOUSING REVENUE ACCOUNT – RISKS & ASSUMPTIONS
FOR CONSIDERATION BY CABINET 8 February 2022

Risk area	Details
Self-financing	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. Following four years under which the Government removed local discretion to set rent levels (imposing four annual rent decreases of –1%) from 2020/21 (and for five consecutive years) Local Authorities are granted discretion to increase rents by a maximum of CPI +1%. Potential financial risk exists should the Government deviate from this position during the five-year period, or with significant fluctuations in CPI against projections. To help mitigate this robust business and financial planning arrangements need to be maintained, including the production of a 30-year business plan.
Rent Policy	From 2020/21 the Rent Standard within the Social Housing Regulations has applied 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. On 4 October 2017 the Government announced it would maintain statutory control over rent increases and that increases to social housing rents will be limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020. This remains as current policy. The 30-year HRA business plan reflects this rent increase from 01 April 2020 and for 5 years. There is still uncertainty regarding prospects for 2025/26 onwards and future changes to regulation. These risks need to be considered and Government plans kept under review, to inform future decision-making.
Income Recovery	The impact of tenant debt and reduced income (through rent and other housing-related charges) on business planning is recognized as a key risk to the delivery of housing services and the sustainability of financial planning. Wider cost-of-living issues such as rising utility costs and increases in inflation potentially increase this risk. Income Management within the housing service is externally accredited by the Housing Quality Network (HQN) and delivers best practice across many areas of tenant debt. A renewed focus on former tenant and other sundry debt continues and is reflected in service improvement planning from 2021 onwards, as are wider financial support and inclusion activities across the service.
Void levels (empty council properties)	Management of voids remains a priority to ensure that rent loss through empty properties is minimised. The coronavirus pandemic has had a significant impact in this area due to restricted access to properties, access to materials, self-isolation issues, difficulty in delivering a normal lettings service and a complete pause on lettings as directed by the government for a period at the start of the pandemic. Entering 2022/23 the effects of these restrictions continue to be seen.

	Void management is also subject to fluctuation in property turnover levels, and remains an area of risk. Continuous review is in place to mitigate this risk, underpinned by service improvement planning.
Reduced demand	Reduced demand for council housing within the district would pose a threat to rental income. Overall demand for council housing stock is currently high, particularly for one- and two-bedroom properties. Demand is monitored and informs the asset management planning process, and in line with the District Housing Strategy, informs the Council's decision to give priority to building one-bedroom accommodation in any new build program or acquisition scheme. The potential for 'difficult to let' schemes, areas, or property types to undermine demand is monitored, with strategic planning in place to mitigate any specific issues. Work is ongoing to promote the visibility of the housing service – through marketing, communication, and with face-to-face customer service opportunities - and to maintain council housing as a landlord of choice within the district.
Stock reduction	The rate of Right to Buy (RTB) sales remains relatively low compared to historic levels of sales; the budget planning process assumes 20 Right to Buy Sales per year. Any sales lead to future projected rental income levels being reduced, but many costs are fixed, resulting in an adverse impact on the revenue position. On the other hand, low sales levels also lead to lower levels of capital receipt. Significant increase in RTB sale would reduce income levels, which would lead to deterioration in the HRA budgetary position and the viability of the HRA. The government's recent White Paper (December 2020) sets out expectations for increased promotion of the Right to Buy scheme, however there are no indications that a significant increase in sales is likely. To offset this the council housing team continue to explore avenues for development, delivering recent conversions of former scheme manager accommodation into one-bed units, and scoping other sites and opportunities to realise a 'pipeline' of potential development.
Additional capital requirements	Legislation, changes in health and safety standards, or the discovery of previously unknown defects create the potential for additional capital expenditure requirements. In response to the Building Safety Bill and Fire Safety Act (2021) the housing team have conducted a thorough review of all compliance activities: greater clarity and increased responsibility of the Council's role as a landlord in this area will be reflected in additional capital spend. In addition, an increased focus and budgetary requirement has been placed on capital works delivered in response to the Climate Emergency, with a commitment to a ten year programme of energy efficiency improvements and upgrades across all housing stock.

	Asset management planning remains vital to identify the investment needs and inform the programmes. Any requirements identified will be reviewed and reflected in the 30-year HRA Business Plan. The Mainway estate (comprising circa 250 council dwellings) was subject, in 2019, to detailed survey work which highlighted the need for major decisions around repair, upgrade, or redesign. Project work is underway to define the options available; any potential project of transformation on Mainway will likely require borrowing against the HRA and will be subject to the council decision making process.
Service Resilience	The ongoing coronavirus pandemic, severe weather episodes, and other such events remain as financial and practical risks to delivery of the housing service. Greater resilience and working practices have been developed through experience in recent years to allow the service to maintain delivery against such risk. The service participates actively in the Council's resilience activities and planning, and has developed robust processes to mitigate such risk.
Effect of legislation/ regulation	Implications of new legislation / regulation or changes to existing legislation / regulation can present challenges and are monitored and reflected in service review and improvement planning. Recent examples include: The Social Housing White Paper (December 2020) set out the direction of regulatory environment for the future and will be reflected in regulation. Local Authorities are, from 2020/21, subject to the 'Rent standard' within the social housing regulations: a standard which Lancaster City Council has been adhering to voluntarily, prior to 2020/21, for reasons of best practice. The Building Safety Bill and Fire Safety Bill (2021) represent the legislative response to the Grenfell tragedy of 2017, and have informed a wide-ranging compliance review within the housing service.