



2012/13 BUDGET
HOUSING REVENUE ACCOUNT – RISK & ASSUMPTIONS
FOR CONSIDERATION BY CABINET 17 JANUARY 2012

RISK AREA	NOTES/DETAILS
Self Financing	<p>The current subsidy system comes to an end and the HRA will be self financing from April 2012. The council will be making a one off settlement and be making a proposed settlement payment of £32m and the HRA will need to service a new debt of approximately £1.5m. Unlike the previous negative subsidy the HRA was paying to Government the new debt will be fixed subject to interest rates.</p> <p>Currently the HRA is servicing historic debts of £15m and the start of self financing this will increase to approximately £47m.</p> <p>Under the Government's borrowing rules the council would still be £14m below its debt cap. The requirements of the Prudential Code apply, however, in that any additional borrowing to support capital investment will need to be affordable, prudent and sustainable.</p> <p>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.</p>
Rent Setting	<p>The current policy for calculating social rents and service charges within the HRA is expected to be maintained. The Government is assuming, in its calculation of the debt settlement for self financing, the council will increase its rents in accordance with Government guidelines. The Government is also assuming that the national policy of rent convergence will continue with the assumption that local authority rents will converge with RSL rents soon after 2016. This may take up to 2022.</p> <p>The estimates as set out assume an increase of 7.82% which is considered the optimum level of increase for the Council based on the Government's proposals in the Determination. This equates to an average actual rent of £69.22 which is below the Government's Limit Rent of £70.33. Increases above the Limit Rent would result in a penalty through the Rent Rebate Subsidy Limitation. Proposals are also below the Formula Rent, which is calculated at £72.53. The difference between the Actual Rent and Formula Rent represents our gap in convergence.</p>
Rent Collection	<p>It is anticipated that proposed Government 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. The provision now stands at an appropriate level. There is a negative effect on future years' budgets if arrears management deteriorates and a positive effect if it improves.</p> <p>A new income management team is being established to provide improved collection arrangements for housing rents and debts.</p>
Supporting People Grant	<p>Lancashire County Council provide an annual grant of approximately £240,000 for 3 contracts providing support services in sheltered housing and community alarm support. County are continuing to reconfigure their commissioning strategy for these services. Existing contracts will expire 31 March 2013.</p>

Appendix B

Reductions in stock from Right to Buy (RTB) sales - CHS	<p>The rate of sales in 2011/12 remains low with only 3 RTB so far this year. This compares to 3 in 2010/11, 2 in each of 2008/09 and 2009/10 and is reduced from an average of 59 for the preceding 5 years. It is anticipated that this trend is likely to continue in the short to medium term leading to higher levels of rental income than would previously have been predicted. 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. Significant reduced rental streams would lead to deterioration in the HRA budgetary position unless measures could be taken to reduce costs within the HRA.</p> <p>The Government has indicated its intent to raise Right to Buy discounts. The Government's objective is to increase the number of sales through the Right to Buy. At this stage it is difficult to assess the impact but it is anticipated that given the current economic climate sales will not increase.</p>
Management of Void	<p>Rent loss through void properties in previous years has been maintained at a low level. The reduction followed the introduction of improved void management arrangements within Health and Housing Services. In recent months we are starting to experience an increase in rent loss through voids and steps are being taken to tackle this, however if stock turnover increases greater allowance may need to be made within the budget.</p>
Stock Condition Survey	<p>The HRA stock investment needs are informed through a stock condition survey. The last survey was undertaken in 2008/09 and provides a robust base to inform investment needs. It is proposed to review the stock condition information again during 2012/13 to feed into an updated asset management plan and overall HRA business plan to ensure a successful transition to self financing.</p>

Appendix B

RISK AREA	NOTES/DETAILS
Meeting the Decent Homes Standard - CHS	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. Any significant reduction in available capital financing (e.g. through revenue growth) could have an adverse impact on the position.
Repair & Maintenance Services - CHS	RMS is a high turnover activity with charges set to recover costs. The budget is based on the current Repairs and Maintenance Section establishment. Changes in the level of the establishment, the efficiency of the workforce, or the amount of work available to RMS will impact on the ability of the unit to recover its costs and could lead to a surplus or deficit. The hourly charging rate should be reviewed regularly in order to ensure there is no significant under/over recovery of cost.