Appendix D

2018/19 BUDGET
HOUSING REVENUE ACCOUNT – RISK & ASSUMPTIONS
FOR CONSIDERATION BY CABINET 16 JANUARY 2018

LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside

RISK AREA	NOTES/DETAILS
Self financing	The Government policy changes within the Welfare Reform and Work Act and the Housing and Planning Act continues to present 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 duty to keep a HRA as a ring fenced account and has a duty to ensure that it does not go into deficit. To help mitigate those risks, 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 had set a local 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's rent setting policy is based on Government rent policy guidelines and the freedoms introduced under the self-financing regime in 2011.The Council remains committed to maintaining decent homes, and aspires to build and acquire new homes to meet local needs. The original rent policy supported the debt settlement for self-financing, and future financing of the HRA through rent increases of RPI + 1%. The Government subsequently issued guidelines that from 2015 onwards for rents to increase by CPI (at September of the previous year) + 1% annually, for ten years. 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. This created substantial financial sustainability risks for the HRA, and undermined the business case for new build. 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. The 30 year HRA business plan has been revised to reflect that rents from 01 April 2020 will rise on this basis. Whilst this change helps to address viability risks, there is still considerable uncertainty regarding prospects for 2025/26 onwards and the above history highlights that Government policy can change significantly. These risks will need to be considered and Government plans kept under review, to inform future decision-making.
Income recovery	The welfare reform agenda and in particular, the introduction of Universal Credit within the district has resulted in significantly increased the levels of rent arrears and risk to levels to rent collection. There will be continuing negative effect on the ability to sustain future years' budgets if income recovery continues to deteriorate. Adequate Bad Debts provisions will be provided for within the HRA, and the level is kept under regular review. To mitigate against these increased risks the income management team is to be again further 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 remains 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 income losses due to voids.

Reduced demand	Overall demand across the council housing stock is monitored and informs the asset management plans. Demand for council housing remain high for one and two bedroom properties, however demand for family housing is currently limited. These has also been evidenced in the recent local housing needs survey. The demand profile continues to inform the Council's decision to give priority to building one bedroom accommodation in any new build programme or acquisition scheme.
Stock reductions	The rate of RTB sales in 2017/18 has increased but is still relatively low compared to historic levels of sales. The Government has put on hold its proposed policy of sale of higher value council homes as they become vacant until at least 2019/20, and it is unclear whether the policy will be implemented thereafter. 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 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 need 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	The district has been subject to two severe weather events within the last two years. 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 continues to present significant new financial challenges and risks to the Council's HRA. The Government is introducing a "Sheltered Housing Rent" which will set an overall cap on the amount that the Council can charge in gross eligible rent (rent inclusive of eligible service charges) on each unit of sheltered or extra care provision. The Government will also cap annual increases. Depending on future reforms, corrective actions may need to be taken to avoid the HRA going into deficit in future years.
Other events	Continuing reductions in services in other sectors such and health and social care are presenting increased demands and risks to the Council as a social landlord. In response to these challenges the Council is redesigning its housing management services to support tenants' health and social needs.