APPENDIX G

2019/20 BUDGET
HOUSING REVENUE ACCOUNT – RISK & ASSUMPTIONS
FOR CONSIDERATION BY CABINET 12 February 2019

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. 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. 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, based on Government rent policy guidelines and the freedoms introduced under the self- financing regime in 2011, which supported the future investment needs of its HRA housing stock. This 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 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 rents should increase by CPI + 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, imposing 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 this rent increase 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 (UC) within the district in 2016, resulted in significantly increased levels of rent arrears, and risk to rent collection. The Income Management team has been strengthened since 2016, achieving external accreditation for good practice from HQN in 2018. After the initial UC led 'spike,' levels of rent arrears have decreased significantly in 2018/19. However, a sustained focus on Income Management, particularly around financial inclusion and support, is required to maintain this position. Adequate bad debts provisions will be provided for within the HRA, and the level is kept under regular review.
Void levels	Management of voids remains a priority to ensure that rent loss through voids is minimised. Throughout 2018, a project based on lean principles has helped drive significant improvements; more than halving average re-let time for empty properties, and delivering savings of over £100k in rental income previously lost due to empty properties. Void management, however, is subject to fluctuation in property turnover levels, and remains an area of risk.

Reduced demand	Overall demand across the council housing stock is monitored and informs the asset management plans. Demand for council housing remain high, particularly for one and two bedroom properties, but the most recent housing needs survey for the district highlighted that demand for affordable housing (as distinct from social housing) across all groups is not insignificant. 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 Right to Buy (RTB) sales in 2018/19 remains 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 create the potential for additional capital expenditure requirements. The Council has increased its expenditure in recent years 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 inform the programmes. Any requirements identified will be reviewed and reflected in the 30 year HRA Business Plan. The Mainway estate (comprising circa 200 council dwellings) benefited from a major refurbishment in the 1990's. Installation of Structherm external render and new windows significantly improved the thermal performance, reducing heating costs and raising the standard of the accommodation for tenants. The refurbishment has performed well, but the site is very exposed and the render system is approaching the end of its economical design life. Consultations are underway to develop repair and maintenance solutions, and identify options to upgrade both the interior and open spaces. Detailed survey work highlights that previous cost assumptions, based on the advice at the time, under-reported the potential liability. Work of the next 12 months will define the proposed project. It is anticipated that the cost of repair and the attendant upgrading, depending on options which will be submitted for approval, will require us to draw substantially on reserves; potentially £3M. The outcome of this project will devise the most cost effective strategy for the future of the estate.
Major disasters	The district has been subject to two severe weather events in recent 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 government green paper, for example, ‘ a new deal for social housing’, contains proposals for the future of social housing. Although the housing related legislative programme of Government remains uncertain, it contains the potential to create new financial challenges and risks to the Council’s HRA.
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 has redesigned, and continues to develop, its housing management services to support tenants’ health and social needs.