2021/22 BUDGET
HOUSING REVENUE ACCOUNT – RISKS & ASSUMPTIONS
FOR CONSIDERATION BY CABINET 9 February 2021

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 applies 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 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 recent coronavirus pandemic placed additional pressures on income collection. The Income Management team has been developed since 2016, achieving external accreditation as an example of industry-wide good practice from HQN in 2018. Current tenant rent arrears are low and rent and service charge income collection is being maintained effectively. The impact of tenant debt on business planning is recognized as a key risk to the delivery of housing services. A renewed focus on former tenant and other sundry debt continues and is reflected in service improvement planning for 2021/22.
Void levels (empty council properties)	Management of voids remains a priority to ensure that rent loss through empty properties is minimised. The recent coronavirus pandemic had a significant impact in this area due to restricted access to properties, 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.

	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 Work is ongoing to promote the visibility of the housing service, 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 have embarked on a programme of conversions: completing two projects in 2020/21 to realise four units and increase housing stock by two.
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. In addition, an increased focus and budgetary requirement has been placed on capital works delivered in response to the Climate Emergency. 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 Council is monitoring requirements from the Building Safety Bill, Fire Safety Bill and Social Housing White Paper – specifically with reference to reviewing the Decent Homes definition. 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 would likely require borrowing against the HRA and will be subject to the council decision making process.

Major Disasters	The coronavirus pandemic is an area of risk which has been managed through emergency planning processes, and comprehensive service development and review designed to mitigate the worst financial effects. The district has also been subject to 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.
Effect of legislation/ regulation	Implications of new legislation / regulation or changes to existing legislation / regulation can present significant financial risks, particularly around rent setting. The recent Social Housing White Paper (December 2020) sets out the direction of regulatory environment for the future. To note, 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 Council is now required to submit a yearly self-assessment to the Housing Ombudsman around complaints dealt with and it's handling process. The Building Safety Bill and Fire Safety Bill are being kept under review in terms of future requirements for social housing providers.