REPORT TO: CABINET

DATE: 29 JANUARY 2015

TITLE: HOUSING REVENUE ACCOUNT BUDGET 2015/16

PORTFOLIO HOLDERS: COUNCILLOR ROD TRUAN
                          COUNCILLOR MIKE DANVERS

LEAD OFFICERS: CORPORATE MANAGEMENT TEAM (01279) 446099
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                           ANDREW SMITH, FINANCE MANAGER (01279) 446212
                           ALISON CURTIS, SENIOR SERVICE ACCOUNTANT (01279) 446211

This is a Key Decision
It is on the Forward Plan as Decision Number I003563.
This decision is not subject to Call-in procedures for the following reason:
This is a decision is a recommendation to Full Council.
This decision will affect no ward specifically.

RECOMMENDED that Cabinet recommends to Full Council that:

A  The rent increase for individual dwellings as set out in paragraphs 7 to 15 of this report and effective from 6 April 2015 be agreed. This equates to an average weekly rent of £93.60, an average increase of 2.2%.

B  Service charges for individual dwellings, as set out in paragraphs 16 to 23 of this report, effective from 6 April 2015 for tenants and 1 April 2015 for leaseholders be agreed. This equates to an average weekly service charge to tenants of £1.92.

C  Heating charges are increased as set out in paragraphs 24 to 29 of this report, effective from 6 April 2015 for tenants and 1 April for leaseholders. Average weekly general needs charges are £13.10 per week (leaseholders £18.67 per week, equivalent) and, for sheltered accommodation, £10.24 per week.

D  Garage rents are increased to £8.36 per week (for a standard garage) and proportionate increases for other garages, car ports and car spaces, from 6 April 2015, as set out in paragraphs 30 and 31 of this report.
E Other charges are increased, as set out in paragraph 32 of this report, with effect from 1 April 2015.

F The growth bids as outlined in paragraphs 33 and 34 of this report are approved.

G The Housing Revenue Account (HRA) budget as set out at Appendix A of this report is approved.

H A minimum HRA working balance of £2,695,000 at 31 March 2015, rising to £2,727,000 at 31 March 2016, as set out in Appendix B to this report, is agreed.

REASON FOR DECISION

A This report sets out the Housing Revenue Account (HRA) budget for 2015/16 and forecast outturn for the current year together with the information necessary to set a balanced budget as required by legislation.

BACKGROUND

1. The HRA is the statutory landlord account for the Council and expresses in financial terms the level of housing service to be delivered within agreed policy guidelines.

2. This report sets out the proposed 2015/16 budget under self-financing regulations. The report should be read in conjunction with the HRA Business Plan 2014-44 which forms a separate report on the Cabinet’s agenda.

3. The Cabinet is invited to note the revised budget and projected outturn for 2014/15 and approve the HRA Estimates for 2015/16.

BASIS OF ESTIMATES

4. The Council is obliged by law to set rents and other charges at a level to avoid a deficit on the Housing Revenue Account (i.e. the legal minimum balance at any time during the financial year must exceed zero). This must be done during the months of January and February of the year immediately preceding the relevant year. This report proposes a HRA budget for 2015/16 (the “relevant year”) that avoids a deficit. The summary HRA budget is shown at Appendix A.

5. The budget has been prepared allowing for anticipated increases in pay and prices. Estimates for employee costs have been prepared including a 2.2% pay award totaling £80,500 from January 2015 and an assumed vacancy rate in 2015/16 of 2% (which is an equivalent saving of £59,950 for the year).
6. The budget also takes account of proposed dwelling rent levels and service charges, which were unpooled from tenants’ rents for the first time in 2007/08.

RENT SETTING

7. The government has issued new guidance for setting rents from 2014/15 to 2024/25. This states that increases should not exceed the Consumer Price Index plus 1% (CPI+1%) annually. This increase is lower than would have been the case under rent restructuring and means that the guidance increase for Harlow for 2015/16 would be 2.2% (not 3.25% had rent restructuring continued). For further information refer to Appendix C.

8. Following consultation it is proposed that the Formula Rent uplift be amended for 2015/16 to achieve an average rent of £93.60, an uplift of CPI -0.1%. This will create a Local Formula Rent for Harlow with a range of increases.

9. Under these proposals, 368 properties would have increases limited to CPI +1% +£2 per week. This means that these properties will not have rents set in line with the Local Formula Rent in 2015/16.

10. The Business Plan 2014-2044 is based on the proposed rent increase in 2015/16 and the continuation of rent restructuring until all properties are charged at the Local Formula Rent.

11. Rent rebate expenditure is charged to the General Fund, and funded through a separate subsidy.

12. Applying an increase in accordance with the Local Formula Rent results in different levels of changes in actual tenants’ rents. Rents rise on average from £91.59 to £93.60 per dwelling per week. This is an average increase of 2.2%.

13. The rent set for new properties purchased on the open market will be the Formula Rent for the size and type of property being let.

14. The only other departure from the Local Formula Rent is to simplify the charge made per room for temporary accommodation. It is proposed that the rent be set at £26.77 per week per room (£26.20 per week in 2014/15).

15. Service Charges are made in addition to rents and are discussed below.

SERVICE CHARGES

16. Seven service charges were unpooled from rents in 2007/08. In addition, the Council has published a range of service standards to support the implementation of service charges. These are regularly reviewed in
consultation with tenants and leaseholders to ensure the principles of service charges in terms of transparency, improved service delivery and greater accountability are delivered.

17. The key features to the calculation of service charges are:

a) Actual, not estimated, cost of service charges are recovered from both tenants and leaseholders, subject to the availability of reasonable data. This means that any difference between the actual cost and estimated cost will be collected or refunded in the year following closure of accounts (i.e. any difference in 2013/14 charges will be collected / refunded in 2015/16);

b) Charges should be consistent to tenants and leaseholders and be fully recovered wherever possible.

18. The adjustment for all service charges in respect of 2013/14 is equivalent to a reduction of 6p per week due to the over recovery of service charges in 2013/14.

19. The Cabinet is asked to consider the following range of charges, based on the above methodology, which will apply to both tenants and leaseholders.

<table>
<thead>
<tr>
<th>Charge</th>
<th>Highest weekly charge (£)</th>
<th>Lowest weekly charge (£)</th>
<th>Average weekly charge (£)</th>
<th>Average weekly charge (for all tenants) (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amenity Cleaning – gully cleaning</td>
<td>1.13</td>
<td>0.01</td>
<td>0.08</td>
<td>0.06</td>
</tr>
<tr>
<td>Amenity Cleaning – bins</td>
<td>1.28</td>
<td>0.06</td>
<td>0.31</td>
<td>0.02</td>
</tr>
<tr>
<td>Caretaking</td>
<td>13.38</td>
<td>0.78</td>
<td>6.12</td>
<td>0.58</td>
</tr>
<tr>
<td>Cleaning</td>
<td>13.75</td>
<td>0.15</td>
<td>4.42</td>
<td>0.63</td>
</tr>
<tr>
<td>Door Entry Management</td>
<td>1.14</td>
<td>1.14</td>
<td>1.14</td>
<td>0.09</td>
</tr>
<tr>
<td>Grounds Maintenance</td>
<td>2.11</td>
<td>0.01</td>
<td>0.31</td>
<td>0.25</td>
</tr>
<tr>
<td>Landlord’s Lighting</td>
<td>3.38</td>
<td>0.43</td>
<td>1.08</td>
<td>0.35</td>
</tr>
<tr>
<td>Sub Total</td>
<td></td>
<td></td>
<td></td>
<td>1.98</td>
</tr>
<tr>
<td>Adjustment in respect of 2013/14</td>
<td></td>
<td></td>
<td>(-)0.06</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td>1.92</td>
</tr>
</tbody>
</table>

20. In addition to the above, the following service charges apply to leaseholders only from 1 April 2015:

a) Lift maintenance (plus associated charges for powering the lift). The annual charge will be in the range £94.52 to £335.82 per leaseholder.

b) The management cost is a flat rate estimate of £172.05 per leaseholder.

c) The charge for the registration of a lease will increase to £80.90 (£79.00
in 2014/15). The charge applies to individuals who acquire a leasehold property for the purpose of sub-letting under the Right to Buy or on the open market for the purpose of subletting the dwelling. Under the terms of the leases all landlords must advise the Council of any under-lease and these must be registered appropriately and that a fee may be charged.

d) The insurance cost is an average estimate of £67.97 per leaseholder.

e) Routine repairs and major repairs are recharged at the full actual cost to the Council.

21. Leaseholders pay an annual charge. Tenants pay the same charge, if relevant, divided into equal weekly instalments. It is proposed that changes in service charges are effective from 6 April 2015 for tenants and 1 April 2015 for leaseholders.

22. Heating charges, which apply to both tenants and leaseholders are discussed below.

23. Finally, tenants who exercise their Right to Buy make a one-off contribution into an In Perpetuity Fund for grounds maintenance, amenity cleaning and litter picking. The contribution to the fund is intended to cover future maintenance for 80 years. It is proposed that this charge is increased to £5,160 (2014/15 £5,100) in line with the CPI at September 2014 which was 1.2%.

HEATING CHARGES

24. Heating charges are made in respect of blocks of flats and clustered properties where communal heating is provided. The charges have been reviewed to take into account previous over and under-recoveries in expenditure. Costs are split between fuel and non-fuel charges. Non-fuel charges (e.g. boiler maintenance, management costs) are admissible for housing benefit unlike the cost of providing gas, electricity and oil.

25. It is the Council’s policy that tenants will not be charged for the management and maintenance costs as it is included within their rent, although leaseholders will still be expected to pay this charge.

26. Tenants and leaseholders are fully recharged the respective cost of the service. The average charge to tenants for fuel provided will be £13.10 per week (2014/15: £13.81) prior to any adjustment for the difference between the estimated and actual charges in 2013/14; and for leaseholders for fuel and non-fuel, £18.67 per week (2014/15: £18.96).

27. Residents in sheltered accommodation also benefit from communal heating. In 2007 the Housing Committee agreed to safeguard against fuel poverty, so as to limit the amount paid by tenants in sheltered accommodation. The fuel
poverty caps are adjusted annually based on the State Pension annual increase (CPI was 1.2% at September 2014: State Pension increases are expected to be 2.5% from April 2015) so that for 2015/16 charges will not exceed £17.43 for a one bed property and £23.51 for a two or three bed property.

28. The average charge for sheltered accommodation will be £10.24 per week (2014/15: £10.64). In 2015/16 no sheltered properties out of 460 have charges that will be limited by the fuel poverty caps.

29. Heating charges to tenants in properties that were re-designated from sheltered housing to general needs in 2010/11 will have the same fuel poverty caps applied as sheltered tenants.

**GARAGE RENTS**

30. It is proposed to increase all garage related charges by 2%. The rent of a standard garage would rise by 16p per week to £8.36.

31. It is proposed that changes in garage rents are effective from 6 April 2015.

**OTHER CHARGES**

32. It is proposed that the charges for other miscellaneous items be as follows:

   a) Meal charges at Sumners Farm Close will move from £5.40 to £5.60, with effect from 1 April 2015.

   b) The charge made to those purchasing their council property under the Right to Buy Scheme for an Energy Performance Certificate be reduced to £55.00.

   c) Solicitor’s enquiries with copy of an insurance schedule will rise from £133.50 to £135.10 (inclusive of VAT at 20%).

   d) Solicitor’s enquiries without copy of an insurance schedule will rise from £97.50 to £98.70 (inclusive of VAT at 20%).

   e) Solicitor’s enquiries for additional information will rise from £35.50 to £35.90 (inclusive of VAT at 20%).

   f) Laundry charges within sheltered housing schemes will remain at £1.70 per wash and 20p for each 10 minute dry.

   g) The charge for temporary accommodation will be £26.77 per week per room, (2014/15: £26.20).
h) Interest free loans and voluntary charges in respect of major works are subject to an administration fee of £304 (2014/15 £300).

GROWTH BIDS

33. The following growth items are proposed in the 2015/16 budget:

<table>
<thead>
<tr>
<th>TABLE 2 - 2015/16 HRA GROWTH</th>
</tr>
</thead>
<tbody>
<tr>
<td>DETAILS</td>
</tr>
<tr>
<td><strong>Budget Pressures</strong></td>
</tr>
<tr>
<td>Business Support Officer</td>
</tr>
<tr>
<td>Team Leader (Business Support)</td>
</tr>
<tr>
<td>Contracts and Compliance Officer (Property Services)</td>
</tr>
<tr>
<td><strong>TOTAL GROWTH</strong></td>
</tr>
</tbody>
</table>

34. The Growth bids support the increased workload in areas where there are new systems, or an opportunity to achieve efficiencies through changes in working practices:

   (a) The Business Support Officer will support the service throughout the implementation of the Orchard responsive repairs module and will continue to support the service following the re-procurement of the Joint Venture Company contract which ends on 31 January 2017.

   (b) A Business Support Team Leader is required as part of the restructure of the team. It will add to the team’s capacity and ensure Housing’s ICT applications are supported and that Housing is able to achieve the priorities in its Service Plan.

   (c) A Contracts and Compliance Officer will support the work on contract compliance responsibilities within the Housing Property Service Team, add additional validations and ensure the Council meets statutory requirements.

35. There are two new recharges from the General Fund to the HRA, one of which is contained within the General Fund estimates for approval by Full Council in 2015:

   a) The relocation of the Savills Project Management Team to the Lutton Bush Centre – annual recharge of £30,000.

   b) The proposal to create four new additional permanent posts in Contact Harlow to cope with an increase in telephone enquiries relating to
repairs. Two of the posts will be recharged at 65% to the HRA and the other two posts at 100%, total cost £99,000.

GARAGE STRATEGY

36. The Council has updated its Garage and Hardstand Strategy which entailed a stock condition survey and review of the financial viability of garage sites. This was approved by Cabinet on 11 December 2014.

37. As part of the development of the Housing Revenue Account (HRA) Business Plan short term priorities and the development of corporate asset management plans an appraisal exercise was undertaken, building on the stock condition survey results, in order to develop a longer term plan for the garage and hardstand portfolio and HRA and General Fund (GF) asset registers. As part of this work, analysis was undertaken on transferring all or part of the garage housing stock to the General Fund, given that a significant proportion of garages are rented by non-Council housing tenants.

38. The Strategy reviewed the financial viability of each garage block and, where the decision to ‘retain and invest’ was made, set a programme for future major expenditure.

39. The Council has 7,983 garages in total, 6,428 of which are designated ‘retain and invest’. Of these 3,581 are let to non-tenants. These will be “appropriated” since these are no longer required for the purpose of housing in accordance with the Local Government Act 1972, section 122, Housing Act 1985 s19 (2): land not used for housing or part thereof can be appropriated for any purpose.

40. Cabinet agreed that these garages should be transferred to the General Fund with effect from April 2015. This means that any costs associated with maintaining the garages and rental income from letting them would be accounted for in the GF resulting in an anticipated net benefit to the GF.

41. The transfer of 3,581 garages let to non-Council housing tenants will assist in the balancing of the General Fund which faces ongoing reductions in grant, in contrast to the Council’s Housing Revenue Account which has a positive ongoing income stream forecasted from housing rents.

42. The garages in question have been revalued at a net £10.937m (this is significantly lower than in April 2013 as a consequence of the Stock Condition Survey produced for the Garage Strategy). This is the value of the garages to be transferred, which has an impact on the respective borrowing limits within the HRA and General Fund. The sale of these assets to the General Fund creates a £10.937m further borrowing headroom within the HRA. Without further borrowing, of course, the overall borrowing position (referred to as the Capital Financing Requirement) remains unchanged.
43. The downward revaluation (i.e. impairment) in the value of the Council's garage stock is £5.8m.

44. It is a statutory duty to show the cost of depreciation and the transfer to the Major Repairs Reserve in the Income and Expenditure Account of the HRA. The reduction in value of the garage stock means that the depreciation charge for dwellings and garages in the Housing Revenue Account is less than originally estimated and therefore also the credit to the Major Repairs Reserve at year end. This means that the funding available to the Housing Capital Programme from the MRR is also lower than originally estimated.

45. As a result a direct revenue contribution to capital in 2014/15 of £2,439,000 will be required and the working balance at 2014/15 is estimated at £9,698,000. The direct contribution to capital in 2015/16 will be £12,110,000 and the working balance at 31 March 2016 £3,388,000.

46. The result of the transfer of garages will be the additional net income of £592,000 that is expected to be available to the General Fund in 2015/16.

WORKING BALANCE

47. The Local Government Act 2003, section 25 (1) (b), requires that the Chief Financial Officer reports to the Council on the adequacy of reserves when the budget and Council Tax are being set by reference to a number of factors considered in Appendix B. It has been recommended that the minimum HRA working balance should be increased from £2,695,000 at 31 March 2015 to £2,727,000 at 31 March 2016 to reflect general increases in inflation.

48. The HRA minimum working balance is set by the Chief Financial Officer to ensure that the account will not fall into a deficit and to mitigate for various risks as set out in Appendix B. The forecast working balance will continue to rise in excess of the minimum in readiness for the repayment of the first tranche of debt to the Public Works Loan Board (PWLB) due in 2026 (see HRA Business Plan 2014-44).

49. Based upon the budget figures set out at Appendix A, the movement of the Operating Account Working Balance is as follows:-
### TABLE 3 - HRA OPERATING ACCOUNT WORKING BALANCE

<table>
<thead>
<tr>
<th>Description</th>
<th>£,000’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working Balance at 1 April 2014</td>
<td>4,113</td>
</tr>
<tr>
<td>Budgeted surplus 2014/15</td>
<td>5,585</td>
</tr>
<tr>
<td>Working Balance 31 March 2015</td>
<td>9,698</td>
</tr>
<tr>
<td>Budgeted deficit 2015/16</td>
<td>(-6,310)</td>
</tr>
<tr>
<td>Working Balance 31 March 2016</td>
<td>3,388</td>
</tr>
</tbody>
</table>

### MAJOR REPAIRS RESERVE

50. The Major Repairs Reserve (MRR) is the statutory account which holds the annual depreciation charge on HRA properties. The charge for depreciation in 2015/16 is estimated at £11,270m (£11,101m revised 2014/15) and is made by debiting the HRA and crediting the MRR.

51. The rules require that the MRR balance can be used either to finance the capital programme or to repay housing debt. The Council does not plan any repayment of debt until March 2026.

52. The Housing Capital Programme can be found as a separate item on the Cabinet’s agenda. This estimates a nil MRR Balance at 31 March 2015, that is the total MRR balance will be used to support the Housing Capital Programme in 2014/15.

53. The estimate for 2015/16 also gives a nil balance at the 31 March 2016 as the full depreciation of £11,270,000 charged to the HRA and credited to the MRR will be used to support the Housing Capital Programme.

### TABLE 4 - MAJOR REPAIRS RESERVE

<table>
<thead>
<tr>
<th>Description</th>
<th>£,000’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 1 April 2014</td>
<td>2,417</td>
</tr>
<tr>
<td>Depreciation charges</td>
<td>11,101</td>
</tr>
<tr>
<td>Capital Financing</td>
<td>(-13,518)</td>
</tr>
<tr>
<td>Balance at 31 March 2015</td>
<td>0</td>
</tr>
<tr>
<td>Depreciation charge</td>
<td>11,270</td>
</tr>
<tr>
<td>Capital Financing</td>
<td>(-11,270)</td>
</tr>
<tr>
<td><strong>Estimated Balance at 31 March 2016</strong></td>
<td>0</td>
</tr>
</tbody>
</table>
RISKS

54. Budgets are prepared using the best assumptions at the time. The size of the Housing Revenue Account is large, with income and expenditure totalling £51m and £57.4m respectively and the following risks have been identified:

   (a) The proportion of void empty properties to the whole stock is estimated as 0.85%. Therefore a 0.1% change in the level of voids is +/- £46,140.
   (b) A 0.5% change in employee pay levels is +/- £14,320.
   (c) Other risks identified in Appendix B to this report.

HOUSING CAPITAL PROGRAMME

55. A separate report on the proposed Housing Capital Programme 2014/15 to 2018/19 appears elsewhere on the Cabinet’s agenda.

56. It should be noted that £2,439,000 has been assumed as a revenue contribution to capital in 2014/15. This is because the balance on the Major Repairs Reserve will be exhausted (see Table 4).

HUMAN RESOURCE ISSUES

57. The proposed 2015/16 budget does not require a reduction in the staffing establishment.

WELFARE REFORM

58. Following the introduction of the Government’s Welfare Reform legislation, including the implementation of the Under-Occupation Surcharges, delays have been experienced with the roll out of Universal Credit and Direct Payment, which brings together the majority of welfare benefits including Housing Benefit, under one claim process which is then paid directly to the tenants rather than Housing Benefit Rebate being credited to the tenants individual rent account. The roll out of Universal Credit will now be carried out in four tranches, with the first tranche planned to be rolled out from March 2015. Once tranche one is complete, subsequent tranches will be rolled out until national expansion is completed during the Spring of 2016. At this stage the Council has not been notified as to what tranche Harlow will be in, but the Department of Work and Pensions has indicated that it expects that it is more likely to be nearer the end of the national roll-out.

CONSULTATION
59. Tenants and Leaseholders have been consulted through the Housing Finance Standards Panel which has received monthly updates since November 2014, the Leasehold Standards Panel on 8 January 2015 and the Tenants Forum which met on 13 January 2015.

60. At its meeting on 19 November 2014, the Housing Finance Standards Panel considered the rent options contained in Appendix C and endorsed the Local Rent option as set out in paragraphs 7-12.

CONCLUSION

61. The proposed budget shows an estimated net deficit for the year of £6,310,000 and a projected working balance at 31 March 2016 of £3,388,000.

APPENDICES

Appendix A - HRA Estimates
Appendix B - Increase in minimum working balance
Appendix C - Rent Setting

IMPLICATIONS

Regeneration (includes Sustainability)
Contained within the report.
Author: Graeme Bloomer, Head of Regeneration

Finance (Includes ICT)
The financial implications are contained in the report.
Author: Simon Freeman, Head of Finance

Housing
As outlined in the body of the report.
Author: Andrew Murray, Head of Housing

Community Wellbeing
None specific.
Author: Graham Branchett, Chief Operating Officer

Governance (includes HR)
None specific.
Author: Brian Keane, Interim Head of Governance
Background Papers


Glossary of terms/abbreviations used

CIPFA  Chartered Institute of Public Finance and Accountancy
CLG  Department for Communities and Local Government
CPI  Consumer Price Index
RPI  Retail Price Index
HRA  Housing Revenue Account
GF  General Fund
MRR  Major Repairs Reserve
DWP  Department of Work and Pensions

Formula rent  Originally planned to bring rents in line with Registered Providers (Housing Associations), the government determined that individual tenants' rents should be calculated by means of a formula based on earnings and bedroom size – weighting 70% - and property value – weighting 30%. The formula rent is uprated annually by an inflationary factor plus a real terms increase.

JVC  Joint Venture Company (ie. Kier Harlow Ltd)
## APPENDIX A

### Housing Revenue Account Summary

<table>
<thead>
<tr>
<th></th>
<th>2013/14 Actual</th>
<th>2014/15 Original</th>
<th>2014/15 Revised</th>
<th>2015/16 Original</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EXPENDITURE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Management</td>
<td>10,111,174</td>
<td>10,920,385</td>
<td>10,983,464</td>
<td>11,848,002</td>
</tr>
<tr>
<td>Special Management</td>
<td>5,429,272</td>
<td>5,643,179</td>
<td>5,408,740</td>
<td>5,610,261</td>
</tr>
<tr>
<td>Repairs &amp; Insurance Appointments</td>
<td>9,703,567</td>
<td>9,336,196</td>
<td>9,327,477</td>
<td>9,342,366</td>
</tr>
<tr>
<td>Rents Rates Taxes &amp; Other Charges</td>
<td>15,809</td>
<td>46,700</td>
<td>30,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Provision for Bad &amp; Doubtful Debts</td>
<td>282,921</td>
<td>360,000</td>
<td>300,000</td>
<td>360,000</td>
</tr>
<tr>
<td>Supporting People Transitional Arrangements</td>
<td>8,978</td>
<td>6,000</td>
<td>6,950</td>
<td>6,900</td>
</tr>
<tr>
<td>Major Repairs Reserve (Net Depreciation)</td>
<td>10,398,717</td>
<td>17,269,000</td>
<td>11,101,000</td>
<td>11,270,000</td>
</tr>
<tr>
<td>Interest Charges</td>
<td>6,825,421</td>
<td>6,824,370</td>
<td>6,822,000</td>
<td>6,768,000</td>
</tr>
<tr>
<td>Debt Management Expenses</td>
<td>12,636</td>
<td>20,900</td>
<td>13,770</td>
<td>13,770</td>
</tr>
<tr>
<td>Revenue Contribution to Capital Expenditure</td>
<td>7,313,836</td>
<td>957,000</td>
<td>2,439,000</td>
<td>12,110,000</td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td><strong>50,102,331</strong></td>
<td><strong>51,383,730</strong></td>
<td><strong>46,432,400</strong></td>
<td><strong>57,359,298</strong></td>
</tr>
<tr>
<td><strong>INCOME</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dwelling Rents</td>
<td>44,811,714</td>
<td>45,662,000</td>
<td>45,707,000</td>
<td>46,143,000</td>
</tr>
<tr>
<td>Garage Rents</td>
<td>2,498,551</td>
<td>2,467,340</td>
<td>2,464,000</td>
<td>957,000</td>
</tr>
<tr>
<td>Other Rents</td>
<td>20,432</td>
<td>25,000</td>
<td>22,000</td>
<td>22,000</td>
</tr>
<tr>
<td>Charges for Services &amp; Facilities</td>
<td>3,867,884</td>
<td>3,794,453</td>
<td>3,784,325</td>
<td>3,882,862</td>
</tr>
<tr>
<td>Interest Receivable</td>
<td>48,813</td>
<td>22,000</td>
<td>40,000</td>
<td>44,000</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>51,247,193</strong></td>
<td><strong>51,970,793</strong></td>
<td><strong>52,017,325</strong></td>
<td><strong>51,048,862</strong></td>
</tr>
<tr>
<td><strong>Balance in hand at 1 April</strong></td>
<td><strong>2,968,382</strong></td>
<td><strong>3,480,000</strong></td>
<td><strong>4,113,244</strong></td>
<td><strong>9,698,168</strong></td>
</tr>
<tr>
<td><strong>Surplus / (Deficit) for year</strong></td>
<td><strong>1,144,862</strong></td>
<td><strong>587,063</strong></td>
<td><strong>5,584,924</strong></td>
<td><strong>(-)6,310,436</strong></td>
</tr>
<tr>
<td><strong>Balance in hand at 31 March</strong></td>
<td><strong>4,113,244</strong></td>
<td><strong>4,067,737</strong></td>
<td><strong>9,698,168</strong></td>
<td><strong>3,387,732</strong></td>
</tr>
</tbody>
</table>

Figures based on:

<table>
<thead>
<tr>
<th>Housing Stock</th>
<th>No.</th>
<th>No.</th>
<th>No.</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Stock at 1 April</td>
<td>9,786</td>
<td>9,705</td>
<td>9,715</td>
<td>9,617</td>
</tr>
<tr>
<td>Less Disposals</td>
<td>(-)87</td>
<td>(-)80</td>
<td>(-)83</td>
<td>(-)60</td>
</tr>
<tr>
<td>Other Disposals</td>
<td>0</td>
<td>0</td>
<td>(-)16</td>
<td>(-)65</td>
</tr>
<tr>
<td>Plus Additions</td>
<td>16</td>
<td>4</td>
<td>1</td>
<td>18</td>
</tr>
<tr>
<td>Housing Stock at 31 March</td>
<td>9,715</td>
<td>9,629</td>
<td>9,617</td>
<td>9,510</td>
</tr>
</tbody>
</table>

**Weekly Charges**

- Average Rent (per dwelling): £87.45, £91.63, £91.59, £93.60
- Average Service Charge (per dwelling): £2.08, £1.79, £1.79, £1.92
- Average Rent (per garage): £8.12, £8.20, £8.20, £8.36
Re-assessing the HRA Minimum Working Balance

Under the Local Government and Housing Act 1989 the Council has a statutory responsibility to set a HRA budget which, at all times, avoids a deficit working balance.

The Finance Director (s151 officer) has a statutory responsibility to ensure that the Council holds an adequate level of balances, and that there are “clear protocols for their establishment and use”. Guidance notes, published by the Chartered Institute of Public Finance and Accountancy (CIPFA), list a number of factors which should be considered in determining a minimum working balance.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Budget assumptions.</strong></td>
<td></td>
</tr>
<tr>
<td>The treatment of inflation and interest rates</td>
<td>Included in the report. The Council receives regular economic bulletins from its Treasury Management advisors which include advice on investments and take into account rapidly changing economic and market conditions.</td>
</tr>
<tr>
<td>Estimates of the level and timing of capital receipts.</td>
<td>Right to Buy sales. There has been a dramatic increase in sales as a result of the Government’s RTB Reinvigoration Policy. Revised Estimate 83 RTB sales in 2014/15 and 60 sales in 2015/16. Significant variances would affect income receivable, although offset by an adjustment to pooling payment.</td>
</tr>
<tr>
<td>The treatment of demand led pressures.</td>
<td>Through budget monitoring process.</td>
</tr>
<tr>
<td>The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments.</td>
<td>The Kier Harlow Joint Venture Partnership began 1 February 2007, and has been extended to 31 January 2017. Charges to the HRA are based largely on fixed contract fee. Repairs subject to schedule of rates but monitored. A joint risk management methodology is in operation between Kier Harlow and the Council. About 83% of the business has an impact on the housing service. The uplift in 2014/15 was based on the projected Building Maintenance Index at March 2014, which is (-)0.2% and estimated at 1.1% at March 2015 to take effect from 1 April 2015. Any change in estimated uplift will have a positive or adverse effect on balances. Planning for the implementation of a new contract in place of the JVCo contract started in 2014 to ensure the award and commencement of the contract from 2017. The reprocurement exercise may cause unexpected variances in pricing.</td>
</tr>
<tr>
<td>Factor</td>
<td>Response</td>
</tr>
<tr>
<td>-----------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>The availability of other funds to deal with major contingencies and the adequacy of provisions.</td>
<td>Provisions are made for bad and doubtful debts. There is a risk that arrears may increase following full implementation of Welfare Reform. This impact and the payment behaviour of tenants is one of the greatest unknowns again in this year’s budget setting process. A regular review is undertaken to ensure that provisions are adequate. There are also in perpetuity funds (e.g. grounds maintenance) but these are weak. The Grounds Maintenance In Perpetuity Fund in particular is suffering from high inflation and low interest earnings.</td>
</tr>
<tr>
<td>Financial standing and management</td>
<td></td>
</tr>
<tr>
<td>The overall financial standing of the authority (level of borrowing, debt outstanding, council rate tax collection rates etc).</td>
<td>High rent collection percentage. Welfare Reform is likely to have a negative, unquantified impact on rent collection rates and costs.</td>
</tr>
<tr>
<td>The authority’s track record in budget and financial management including the robustness of the medium term plans.</td>
<td>The HRA Business Plan includes assumptions for rents in line with draft Government rent policy. The financial standing of the Council is much improved under self-financing, but choices will need to be made in the delivery of the service. Additionally HRA Business Planning has taken on increased focus to ensure the sustainability of the HRA over 30 years.</td>
</tr>
<tr>
<td>The authority’s capacity to manage in-year budget pressures.</td>
<td>A process of monthly budget monitoring is in place with meetings of Cost Centre Managers and the Head of Service held. Corrective action is taken where the minimum balance is likely to be breached. Reports are provided to Corporate Management Team and Cabinet.</td>
</tr>
<tr>
<td>The strength of the financial information and reporting arrangements.</td>
<td></td>
</tr>
<tr>
<td>The authority’s virement and end of year procedures in relation to budget under/overspends at authority and departmental level.</td>
<td>Closure of accounts – free of qualification from auditor. New regulations are challenging for the Council. Proposals on accounting for depreciation will have to be finalised by 2017/18. The guidance required that non-dwellings are treated differently in the accounts from 2012/13.</td>
</tr>
<tr>
<td>The adequacy of the authority’s insurance arrangements to cover unforeseen risks.</td>
<td>The Council will continue to replenish the Insurance Fund as approved when setting the 2015/16 budget.</td>
</tr>
</tbody>
</table>
Conclusion: The minimum working balance should be maintained at or above £2,695,000 at 31 March 2015 and £2,727,000 at 31 March 2016. Note that actual balances will increase to enable the Council to meet its repayment obligations under the self-financing settlement.
APPENDIX C: RENT SETTING

A major portion of income to the HRA is dwellings income.

Until 2014/15, successive governments had a policy of moving local authority rents in excess of annual inflation. This was closely linked to the previous HRA Subsidy system.

Under HRA self-financing the debt settlement calculations assumed that this policy would continue. However under the self-financing arrangements the HRA 30-year Business Plan must be sustainable taking into consideration the principles of affordability, fairness, and priorities.

Rent restructuring, as it was called began in 2002/03. It created a nationally calculated Formula Rent which took account of average county earnings and bedroom size of each property – weighting 70% - and property value – weighting 30%. The formula was uprated annually by inflation. Put simply, it meant that when local rents converged with the Formula Rent a three bedroom rented property with the same property value would have the same weekly rent whether it was in Harlow, Brentwood or Colchester. The Formula Rent had some rationale in that it created relative property rents. What discredited it slightly was the assumption of average county earnings: it was always said that earnings were lower for Harlow residents than elsewhere in Essex.

2015/16 would have been the final year of rent restructuring.

Last year the average increase in Harlow was 4.78% based on a RPI uplift of 2.6%. The maximum increase was limited to RPI+½%+ £2 per week, which was 7.41%. 582 properties had increases limited to RPI+½%+ £2 per week.

Current position

The importance of the nationally devised rent setting (formula rent) as a policy making tool has diminished to the extent that moving towards a Formula Rent for all properties seems no longer relevant.

The rent restructuring formula is still expected to be uplifted annually from each April using published data for the previous September. In 2015/16, for the first time, CPI will be used as the measure, replacing RPI index.

There are two other items of Government guidance.

Firstly, it encourages Councils to maintain the calculation of a National Formula Rent and to use this higher amount when letting property to new tenants. This would mean differential rent charges between neighbouring properties and was rejected by Housing Standards Panel last year as creating a “two tiered town”. The HRA Business Plan 2013-2043 did not factor any movement of dwellings
towards Formula Rent. This creates an accepted loss of income. Using the latest data this amounts to a cumulative £18.7m loss over 30 years.

Secondly, it encouraged Councils to charge tenants whose income exceeds £60,000 a year the market rent. Many Councils have dismissed this as unworkable.

**Possible Options**

**Option 1: CPI +1% (Strict Government Guidance)**

With CPI at 1.2%, all dwelling rents will increase from an average £91.59 to £93.60 per week (+2.2%). The guidance abandons rent restructuring in its final year, and property based relative rents. CPI+1% is the increase included in the latest baseline HRA Business Plan 2014-2044.

For Harlow Council, No dwellings achieve Formula Rent on 6 April 2015. Councils, however, may increase the rents of individual properties on re-letting to the higher Formula Rent but would cause differential rents in neighbouring dwellings for different tenants.

The guidance allows for some flexibility in setting rents for individual properties:

“The Government’s policy recognises that authorities should have some discretion over the rent set for individual properties, in order to take account of local factors and concerns, in consultation with tenants”

From April 2015, the Government however “expects Local Authorities to increase rents by no more than CPI (at September of the previous year) + 1 percentage point in any year”.

A uniform increase of CPI+1% for all dwellings is unfamiliar to council tenants across the country. Doing this would break the long-held policy to create relative rent increases through rent restructuring, and relative rents. Indeed, it is a shame that rent restructuring could not have taken its full course towards the convergence of most tenants rent with the Formula Rent as this is based on a property based formula approach that can be defended now and future years providing a degree of certainty for the HRA Business Plan.

**Option 2: Continue with rent restructuring formula and approach.**

This would continue with the tried and tested property formula approach and continue with the move of “actual” rents to the higher Formula Rent as now,

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1 CLG, Guidance on Rents for Social Housing, June 2014, para. 2.13
2 ibid, para. 2.16
subject to a limitation of CPI+1%+£2 per week. Dwelling rents would increase from an average £91.59 to £94.57 per week (+3.25%).

This approach would create a range of increases, illustrated in the graph below. 581 properties would have increases limited to CPI+1%+£2 per week, in other words would not have actual rents set at Formula Rent in 2015/16.

![Graph showing range of increases](image)

Option 3: Move all rents to Formula Rent from 2015/16

Moving all rents to the Formula Rent established (i.e. removing all limitations). This will produce an average rent of £94.78 (+3.48%) but very high increases on properties where local rents have been successively limited and therefore remain much lower than the national formula rent for the property. With an average £1.18 per week above CPI+1%, this causes a gain to the baseline HRA Business Plan 2014-2044 of £582,000.

This would create the following range of increases:
- 262 dwellings would have increases of less than 2.2%.
- 8974 dwellings would increase between 2.2% and 5%.
- 126 dwellings would increase between 5% and 6%.
- 166 dwellings would increase between 6% and 10%.
- 187 dwellings would increase between 10% and 20%.
- 34 dwellings would have an increase exceeding 20%. The highest increase is 36.3%.
This is considered unacceptable.

**Issues Considered**

All the options above produce a sustainable HRA Business Plan.

Of the options above, following government guidance of uniform rent increases (Option 1) is very clear but abandons any restructuring and the tried and tested approach and the principle of “relative” rent levels.

There are a number of properties where CPI+1% would be a high increase: in 2015/16, 262 properties would have an increase of less than 2.2% if rent restructuring continued.

A Formula Rent however does have some merit in that restructuring amends the relative rents in accordance with bedroom size and property values (a property based approach). If this is considered important, then a locally devised formula would need to be devised.

A local Rent Formula Approach?

The following options are illustrative and consider what might be achieved by use of a local formula meeting the government guidance but continuing with current rent setting approaches. Those below are illustrative, and demonstrate two key principles:

1. **Affordability.**
   The government recommends an increase of no more than CPI+1% over the next ten years. Expenditure plans in the past were formulated on higher increases allowing for full convergence of rents with the Formula Rent. Implementing the current government guidance restricts the income to the HRA Business Plan and may lead to cost reductions or a tapering of ambition to, for example, build new council homes. When the HRA Business Plan 2013-2043 was devised it was demonstrated that a sustainable plan could be achieved but at a potential loss of income of almost £25m over thirty years (now £18.7m, as illustrated above).

2. **Fairness.**
   Although some tenants might contend this, having a Formula Rent with a limitation on rent increases appears to be fair. A Formula Rent – however calculated – is based on a set of principles.
Local Formula - Scenario 1: Amend limitation of rent increase

In Option 2 above, following rent restructuring would move rents from an average £91.59 to £94.57 per week (+3.25%). This includes those with rents limited to CPI+1%+£2 per week.

If the maximum increase permitted was limited to CPI+1% per week, this would follow government guidance and allow those properties with a lower percentage increase to follow rent restructuring. This would produce an average rent of £93.59 per week (+2.18%). This creates the following range of increases:
- 262 dwellings would have increases of less than 2.2%.
- 9453 dwellings would increase by no more than 2.2% (i.e. CPI+1%).

The option is akin to creating uniform annual rent increases, so does not favour rent restructuring principles.

Local Formula - Scenario 2 - Amend Formula Rent to achieve the desired average increase

Under rent restructuring formula, property rents in 2015/16 are either set at a Formula Rent for 2014/15 uplifted by 2.2% (CPI+1%) or the actual rent for 2014/15, uplifted by no more than CPI+1%+£2 per week. This produces an average rent of £94.57.

However, in scenario 1 above, the limitation would be set so that no increase exceeded CPI+1%. In scenario 2, the Formula Rent uplift is amended to
achieve an average rent of £93.60, (i.e. an average uplift of CPI+1% meeting guidance) This could be the same average increase overall, but, creates differences in individual property increases, whilst importantly respecting the need for differential rent increases because of the actual gap in convergence with a national Formula Rent under rent restructuring. To achieve an average weekly rent of £93.60, the Formula Rent uplift needs to be amended to CPI-0.1%.

This creates a range of increases. 368 properties would have increases capped at CPI+1%+£2 per week, in other words would not have actual rents set at what would be a Local Formula Rent in 2015/16.

In common with government guidance all properties would not converge with a national Formula Rent.

Tenants serving on the Housing Finance Standards Panel at its November 2014 meeting preferred this option.

Local Formula scenario 3 - Retain Local Formula Rent for Future Years,

Continue with restructuring until all properties were charged at the Local Formula Rent. This would mean average increases slightly above CPI+1% annually, so would break Government guidance. This option would mean that the Council would not be charging tenants the National Formula Rent.

Figures for the next ten years are given here.
<table>
<thead>
<tr>
<th>Year</th>
<th>Weekly Rent (CPI+1%)</th>
<th>Local Formula Rent</th>
<th>Weekly Rent (based on LFR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>£</td>
<td>£</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>2015/16</td>
<td>93.60</td>
<td>93.76</td>
<td>93.60</td>
</tr>
<tr>
<td>2016/17</td>
<td>95.66</td>
<td>95.82</td>
<td>95.72</td>
</tr>
<tr>
<td>2017/18</td>
<td>98.34</td>
<td>98.51</td>
<td>98.44</td>
</tr>
<tr>
<td>2018/19</td>
<td>101.29</td>
<td>101.46</td>
<td>101.42</td>
</tr>
<tr>
<td>2019/20</td>
<td>104.33</td>
<td>104.50</td>
<td>104.48</td>
</tr>
<tr>
<td>2020/21</td>
<td>107.46</td>
<td>107.64</td>
<td>107.63</td>
</tr>
<tr>
<td>2021/22</td>
<td>110.69</td>
<td>110.87</td>
<td>110.87</td>
</tr>
<tr>
<td>2022/23</td>
<td>114.01</td>
<td>114.20</td>
<td>114.20</td>
</tr>
<tr>
<td>2023/24</td>
<td>117.43</td>
<td>117.62</td>
<td>117.62</td>
</tr>
<tr>
<td>2024/25</td>
<td>120.95</td>
<td>121.15</td>
<td>121.15</td>
</tr>
</tbody>
</table>

The HRA Business Plan 2014-2044 is based on rents being set using Scenario 2 (for 2015/16) and Scenario 3 (from 2016/17).