

REPORT TO: CABINET

DATE: 28 JANUARY 2016

TITLE: HOUSING REVENUE ACCOUNT BUDGET
2016/17

PORTFOLIO HOLDERS: COUNCILLOR ROD TRUAN
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This is a Key Decision

It is on the Forward Plan as Decision Number I004242.

This decision is not subject to Call-in procedures as it is a referral to Full Council.

This decision will affect no ward specifically.

RECOMMENDED that Cabinet RECOMMENDS to Full Council that:

- A** The rent reductions for individual dwellings as set out in paragraph 13 of this report are effective from 4 April 2016. This equates to an average weekly rent of £92.66, a statutory reduction of 1%.
- B** Any further rent setting measures, per paragraph 14 of this report, introduced upon Royal Assent of the Welfare Reform and Work Bill 2015, requiring compliance, will be effective from 4 April 2016, and that in the event of a significant change to the approved budget will be reported to a subsequent meeting of Cabinet.
- C** Service charges for individual dwellings, as set out in paragraphs 19 to 25 of this report, effective from 4 April 2016 for tenants and 1 April 2016 for leaseholders. This equates to an average weekly service charge to tenants of £2.05.
- D** Heating charges as set out in paragraphs 33 to 39 of this report, effective from 4 April 2016 for tenants and 1 April 2016 for leaseholders. Average weekly

general needs charges are £7.80 per week (leaseholders £15.94 per week, equivalent) and, for sheltered accommodation, £6.42 per week.

- E** Garage rents are increased by 5%, to £8.78 per week (for a standard garage) and proportionate increases for other garages, car ports and car spaces, from 4 April 2016, as set out in paragraphs 40 and 41 of this report.
- F** Housing related support charges as set out in paragraphs 26 to 32 and Table 3. For service users effective from 1 April 2016.
- G** Other charges are increased, as set out in paragraph 42 of this report, with effect from 1 April 2016.
- H** The growth and savings outlined in paragraphs 43 and 44 in respect of 2016/17 are approved.
- I** The Housing Revenue Account (HRA) budget as set out at Appendix B of this report is approved.
- J** A minimum HRA working balance of £2,727,000 at 31 March 2016, rising to £4,327,000 at 1 April 2016, as set out in paragraph 5 and Appendix D of this report, is agreed.

REASON FOR DECISION

- A** To set out the Housing Revenue Account (HRA) budget for 2016/17 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. The Council has a legal duty to set a balanced budget in the February prior to the beginning of the financial year to which the budget relates.
2. The formation of a new Government following the 2015 General Election has heralded a significant and radical shift in housing policy, with emphasis on welfare reform, work and home ownership. It announced major housing policy changes in its Summer Budget which adversely affect the financial sustainability of the Council's HRA. Namely:
 - (a) That tenants' rents will by law decrease by 1% per year over the next four years (2016/17-2019/20). The HRA Business Plan had previously assumed annual rent increases equivalent to CPI+1%

until 2024/25 in line with Government guidance. This will create a 12% reduction in rent income by 2020.

- (b) The sale of the Council's high value void properties to support the payment of discounts to tenants of housing associations exercising their Right to Buy. With little detail available as to how this will be calculated it is currently estimated that the direct financial impact on the Council could be in the region of £1.6m-£10m per year depending on the formula used (see Appendix C).
- (c) Tenanted households earning over £30,000 to be charged a higher, perhaps market, rent from April 2017, with the additional rental charge being payable to the Treasury in support of funding Housing Association Right to Buys.
- (d) The Government's subsequent change of policy on tax credits will mean changes to Universal Credit and possible implications for the bad debt provision (see paragraph 56).

REVISED SET OF PRINCIPLES

3. Following the announcements, Cabinet in October 2015 agreed a new set of principles to guide Officers in the completion of a sustainable HRA Business Plan. These are:
 - a) Implement legislation to reduce dwelling rents annually by 1% in each of the four years commencing 2016/17.
 - b) Renew the Public Works Loan Board (PWLB) debt of £209m upon maturity of each loan and the repayment be kept under review.
 - c) Maintain the minimum HRA working balance as at 31 March 2016 of £2.727m.
 - d) Revise the housing asset management plans as outlined below, and as detailed in Chapter 4 of the 'HRA Business Plan 2015-2045':
 - (i) Maintain compliance of the Council's housing stock to the housing regulatory requirements by operating a reduced 'just in time' replacement regime for key components such as kitchens, bathrooms, central heating systems, roofs and external structure of homes.
 - (ii) Target resources to safeguard the well-being and safety of the Council's tenants in their homes in regard to increased statutory and legislative landlord requirements for fire safety, electrical

- (communal) safety, asbestos management and lift maintenance.
- (iii) Prioritise energy efficiency initiatives that alleviate fuel poverty.
 - (iv) Prioritise resources for disabled adaptations to meet statutory requirements and keep under review annually.
 - (v) Defer the development of a longer term programme of Council house building and review annually.
 - (vi) Reduce resources to garage-related works and re-prioritise the approved Garage and Hardstand Strategy.
 - (vii) Realise further efficiencies from responsive repairs programmes and scope of works.
- e) Assume annual increases of at least 5% per year for garages and increases / decreases in service charges related to changes in expenditure.

IMPLICATIONS

4. The reduction in dwelling rents of 1% per year has a direct impact on income to the HRA and on the funding of the Housing Capital Programme.
5. In addition the developing policy for Councils to contribute towards the sale of housing association homes and to consider selling high value voids has not been quantified (Appendix C). It is proposed that the government will make an assessment of the sum due, which will be payable in advance of any potential sale. It is reasonable to assume that the Council would need to sell high value dwellings and, to administer, this will create a time lag between decision and receipt from sale. The annual levy could be between £1.6m and £10m depending on the way the scheme is implemented. It is recommended that £1.6m is added to the Minimum HRA Working Balance. (Appendix D).
6. The impact of the Government's announcements on the HRA is that savings of £6.7m needed to be identified in order to maintain the Minimum Working Balance as at 31 March 2020. Setting rents at the new level between 2016/17 and 2019/20 will reduce significantly the resources available to deliver the HRA Business Plan's short, medium, and long term objectives. Efficiencies will have to be made within the HRA, especially in relation to the current asset management plans.
7. Officers have considered how to close the budget deficit of £5.1m to achieve a Minimum Working Balance as at 31 March 2020. The amount needs to increase to £6.7m in order to plan for an expected charge to be made to the Council from the Government's high value void policy. Set out in Appendix A is

a summary of the proposals for closing the budget gap. These assumptions will be reviewed on an ongoing basis.

8. Reducing the budget deficit by £6.7m would however mean achievement of a Minimum Working Balance without any resources set aside for debt repayment or ambition to build further Council homes.
9. The Cabinet is invited to note the revised budget and projected outturn for 2015/16 and approve the HRA Estimates for 2016/17 as set out in Appendix B. The report should be read in conjunction with the HRA Business Plan 2015-45 which forms a separate report on the Cabinet's agenda.

BASIS OF ESTIMATES

10. 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 2016/17 (the "relevant year") that avoids a deficit. The HRA Business Plan sets out the medium and long term finances of the Council and likewise must plan to avoid a deficit.
11. The budget has been prepared in line with the Government's budget guidelines which limits public sector pay awards to 1% per year. Estimates for employee costs have therefore been prepared including a 1% pay award totaling £32,650 from 1 April 2016 and an assumed vacancy rate in 2016/17 of 2%, which is an equivalent saving of £64,810 for the year.
12. 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

13. The Government will require rents of social housing to be reduced by 1% per year for four years from 2016/17. Generally, for 2016/17, this reduction is to be applied to the 2015/16 rent of each property as at 8 July 2015. This equates to an average weekly rent of £92.66, a statutory reduction of 1%.
14. Compliance with the Welfare Reform and Work Bill 2015, upon Royal Assent, may add further regulations to the setting of rents. The Council will need to comply with any such changes. Royal Assent is anticipated during January 2016. Should there be any developments subsequent to the publication of this report officers will provide either a written or oral update.
15. The loss of income from a 1% reduction in rents, although only £0.8m in

2016/17, has a cumulative effect over four years of removing £12.8m and creates a shortfall of £6.1m in HRA balances by 31 March 2020.

TABLE 1:

Projected HRA Balance, 31 March 2020	
	£m
Forecast balance per approved HRA Business Plan, 2014-2044	11.2
Adjustments to HRA Business Plan since February 2015	(-)1.0
	10.2
Rent Reductions 2016/17 to 2019/20 inclusive	(-)12.8
Other adjustments – including. local govt. salaries at 1% p.a.	0.4
Forecast deficit balance	(-)2.2
Required Minimum Working Balance at 31 March 2020	4.5
Difference – budget gap (or capital shortfall) to address	6.7

16. Savings are required to ensure that the HRA maintains a Minimum Working Balance over the medium and longer term as required by law and to ensure sufficient reserves to safeguard its obligations to tenants.
17. The Council will be unable to repay debt beginning over four yearly periods from 2026. New borrowing will be required to cover the loss of future income. The first repayment, of five equal instalments of £41.767m, was due in March 2026.
18. Service charges are made in addition to rents and are discussed below.

SERVICE CHARGES

19. 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 in practice.
20. 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 2014/15 charges will be collected / refunded in 2016/17).

- b) Charges should be consistent to tenants and leaseholders and be fully recovered wherever possible.
21. There is no discernable adjustment over all service charges in respect of 2014/15 for tenants.
22. Proposals for service charges based on the above methodology are set out in Table 2 and will apply to both tenants and leaseholders.

TABLE 2:

Service Charges to tenants and leaseholders, 2016/17				
	Highest weekly charge	Lowest weekly charge	Average weekly charge	Average weekly charge (for all tenants)
	(£)	(£)	(£)	(£)
Amenity Cleaning – gully cleaning	1.14	0.01	0.08	0.06
Amenity Cleaning –bins	1.29	0.06	0.29	0.02
Caretaking	13.43	0.78	6.18	0.58
Cleaning	14.64	0.16	4.70	0.67
Door Entry Management	1.24	1.24	1.24	0.10
Grounds Maintenance	2.17	0.01	0.32	0.26
Landlord's Lighting	3.42	0.44	0.95	0.36
Sub Total				2.05
Adjustment in respect of tenants 2014/15				0.00
Total				2.05

23. In addition to the above, the following service charges apply to leaseholders only from 1 April 2016:
- a) Lift maintenance (plus associated charges for powering the lift). The annual charge will be in the range £94.77 to £298.70 per leaseholder.
- b) The management cost is a flat rate estimate of £180.33 per leaseholder.
- c) The charge for the registration of a sublet will increase to £81.71 (£80.90 in 2015/16). 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 £88.83 per leaseholder.

- e) Routine repairs and major repairs are recharged at the full actual cost to the Council.
24. 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 4 April 2016 for tenants and 1 April 2016 for leaseholders.
 25. 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 will reduce in line with CPI of -0.1% (September 2015) to £5,155 (2015/16 £5,160).
 26. The Council's Supported Housing Service consists of 16 sheltered housing schemes, one extra care scheme for the frail elderly and a community support function for 1,200 clients living across the town.
 27. Essex County Council (ECC) formally acts as the Commissioning body for housing related support (HRS) services delivered by the Council on a contractual basis.
 28. Current HRS charges are met in full from ECC grant funding for those service users in receipt of housing benefit, however, ECC has given notice that the funding for HRS services delivered by the Council is to be reduced by £188,268 from 2016/17.
 29. From 2016/17, the grant funding for sheltered housing support will reduce by £2 per week with £1.16 met from housing benefit. In addition, the grant funding for dispersed community alarms and Harlow community support will cease, whilst the extra frail support service at Sumners Farm Close will receive funding of 41p per week from ECC and therefore require a new weekly charge to tenants of £1.29.
 30. Scrutiny Committee on 8 December 2015 considered the options and recommended the introduction of new service charges as a way to recover the reduced payments. This recommendation to be subject to having measures in place to ensure that the Council works with affected individuals to identify how any additional financial burdens can be mitigated.
 31. The proposed new service charges from 2016/17 are outlined in Table 3 and relate to existing users only. It is expected that new users from 1 April 2016 will pay the full service charge if they choose to have the service. It is also proposed that the charges for dispersed community alarms and Harlow community support to be phased over two years.

TABLE 3:

Housing Related Support: Current and Proposed Weekly Service Charges			
Service	2015/16*	2016/17	2017/18
Sheltered Housing Support	£10.14	£0.84	£0.84
Dispersed Community Alarms	£3.89	£1.95	£3.89
Harlow Community Support	£7.12	£3.56	£7.12
Extra Frail Support, Summers Farm Close	£1.70	£1.29	£1.29

*Currently grant funded from ECC

32. Supported Housing Officers will work with all service users and their families to explore choices and alternative funding avenues.

HEATING CHARGES

33. 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.
34. 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.
35. Market forces have reduced fuel costs in 2015/16 which has been reflected in the prices paid by the Council for gas and electricity supplies. The savings will be passed on to tenants and leaseholders through the proposed estimates for 2016/17.
36. Tenants and leaseholders are fully recharged the respective cost of the service. The average charge to tenants for fuel provided will be £7.80 per week (2015/16: £13.10) prior to any adjustment for the difference between the estimated and actual charges in 2014/15; and for leaseholders for fuel and non-fuel, £15.94 per week (2015/16: £18.67).
37. 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 -0.1% at September 2015: State Pension increases are expected to be 2.89% from April 2016) so that for 2016/17 charges will not

exceed £17.41 for a one bed property and £23.49 for a two or three bed property.

38. The average charge for sheltered accommodation will be £6.42 per week (2015/16: £10.24). In 2016/17 no sheltered properties out of 460 have charges that will be limited by the fuel poverty caps.
39. 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

40. It is proposed to increase all garage related charges by 5%. The rent of a standard garage would rise by 42p per week to £8.78.
41. It is proposed that changes in garage rents are effective from 4 April 2016.

OTHER CHARGES

42. It is proposed that the charges for other miscellaneous items be as follows:
 - a) Meal charges at Sumners Farm Close will move from £5.60 to £5.65, with effect from 1 April 2016.
 - b) Solicitors' enquiries with copy of an insurance schedule will rise from £135.10 to £136.45 (inclusive of VAT at 20%).
 - c) Solicitors' enquiries without copy of an insurance schedule will rise from £98.70 to £99.68 (inclusive of VAT at 20%).
 - d) Solicitors' enquiries for additional information will rise from £35.90 to £36.26 (inclusive of VAT at 20%).
 - e) Laundry charges within sheltered housing schemes are subject to the contract being re-tendered by 31 March 2016. (2015/16 charges £1.70 per wash and 20p for each ten-minute dry).
 - f) The rent charge for temporary accommodation will be £35.00 per week per single room and £50.00 per week for a double room (2014/15: £26.20 per room).
 - g) Interest-free loans and voluntary charges in respect of major works are subject to an administration fee of £306.64 (2014/15: £304).
 - h) The administration fee for a lease extension will increase from £156.00

to £157.56 (inclusive of VAT).

- i) The administration fee for mandatory loans will remain at £130.00 per loan agreed.

GROWTH BIDS

43. The growth bids support the Council's landlord function in respect of health and safety, by complying with the increased statutory requirements and housing regulatory framework.

TABLE 4:

2016/17 HRA GROWTH		£'000s
Carbon monoxide Monitoring		75
Cyclical Maintenance		210
Statutory Testing Compliance Officer		46
Temporary Accommodation:		
Transfer of costs (see General Fund estimate)	147	
Growth – increased demand	<u>120</u>	
		<u>267</u>
TOTAL		598

SAVINGS

44. Efficiencies detailed below as part of the savings required to ensure the HRA maintains a balance above the minimum required.

TABLE 5:

2016/17 HRA SAVINGS		£'000S
Drainage feasibility, street lighting and lifts		(-)15
Void Security		(-)50
Garage painting and repairs		(-)100
External garage programme		(-)150
Equipment and Maintenance		(-)5
Programme and Project Management fees		(-)293
Under Occupation Moving Incentives		(-)5
Redecoration Allowances		(-)4
Training		(-)1
Priority Estates Home Loss Payments		<u>(-)15</u>
TOTAL		(-)638

WORKING BALANCE

45. The Local Government Act 2003 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 D. It has been recommended that the minimum HRA working balance should be increased from £2,727,000 at 31 March 2016 to £4,327,000 at 31 March 2016 to reflect the potential payment to Government for the sale of high value voids.

46. 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 D. The forecast working balance will continue to rise in order to mitigate the potential risks identified (see HRA Business Plan 2015-45).
47. Based upon the budget figures set out at Appendix B, the movement of the Operating Account Working Balance is as follows:-

TABLE 6:

HRA OPERATING ACCOUNT WORKING BALANCE	£'000s
Working Balance at 1 April 2015	10,870
Budgeted surplus 2015/16	(-)3,644
Working Balance at 31 March 2016	7,226
Budgeted deficit, 2016/17	(-)1,969
Working Balance at 31 March 2017	5,257

MAJOR REPAIRS RESERVE

48. The Major Repairs Reserve (MRR) is the statutory account which holds the annual depreciation charge on HRA properties. The charge for depreciation in 2016/17 is estimated at £10.777m (revised 2015/16: £10.811m) and is made by debiting the HRA and crediting the MRR.
49. The rules require that the MRR balance can be used either to finance the capital programme or to repay housing debt. The HRA Business Plan 2015-2045 proposes the renewal, rather than the repayment of debt.
50. The Housing Capital Programme can be found as a separate item on the agenda for this meeting. It is estimated that there will be a nil balance on the MRR at 31 March 2016, as the estimated depreciation of £10.811m to be transferred to the MRR at year end will be used to support the Housing Capital Programme in 2015/16.
51. The estimate for 2016/17 also has a nil balance at 31 March 2017 as the full depreciation of £10.777m charged to the HRA and credited to the MRR will be used to support the Housing Capital Programme.

TABLE 7:

MAJOR REPAIRS RESERVE	£,000's
Balance at 1 April 2015	0
Depreciation charges	10,811
Capital Financing	(-)10,811
Balance at 31 March 2016	0
Depreciation charge	10,777
Capital Financing	(-)10,777
Estimated Balance at 31 March 2017	0

RISKS

52. Budgets are prepared using the best assumptions available at the time. The size of the Housing Revenue Account is large, with income and expenditure totalling £52.03m and £50.06m respectively. The following risks have been identified:-

- (i) The proportion of void empty properties to the whole stock is estimated as 0.70%. Therefore a 0.1% change in the level of voids is +/- £45,183.
- (ii) A 0.5% change in employee pay levels is +/- £15,710.
- (iii) The unknown cost in respect of high value voids and impact on the working balance may require an amended budget to be reported to Cabinet.
- (iv) Impact of Welfare Reform on the bad debt provision.
- (v) Market rents for higher earning households from April 2017.
- (vi) Componentisation of housing assets from April 2017 – see 'HRA Business Plan 2015-2045' for further information.
- (vii) Guidance on rent levels after 2019/20 has not been announced but it is assumed it will return to CPI+1% per year.
- (viii) Managing the transition from the current Joint Venture Company (Kier Harlow Ltd) for housing repairs and environment maintenance services provided to a new Local Authority Trading Company (LATC).
- (ix) Other risks identified in Appendix D to this report.

HOUSING CAPITAL PROGRAMME

53. A separate report on the proposed Housing Capital Programme 2015/16 to 2020/21 appears elsewhere on the Cabinet's agenda.

54. It should be noted that a further £10.498m has been planned as a revenue contribution to capital in 2015/16. This is because the balance on the Major Repairs Reserve will be exhausted (see Table 7).

HUMAN RESOURCE ISSUES

55. The proposed 2016/17 budget has no identified human resource implications.

WELFARE REFORM:

56. 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. Universal Credit brings together the majority of welfare benefits including Housing Benefit under one claim process which is then paid directly to the tenants, rather than benefit being credited to the tenant's individual rent account. The roll out of Universal Credit for single non-home owners in Harlow is due to take place in February 2016.

CONSULTATION

57. The Council has engaged in consultation with tenants following the Government's announcement, specifically at a Special Tenants Forum held on 30 September 2015 and other reports to the Housing Standards Board on which tenant representatives sit and speak.
58. Tenants and Leaseholders have been consulted through the Property Standards Panel and Tenancy Standards Panel on 6 January 2016, the Leasehold Standards Panel on 7 January 2016 and at Tenants Forum which met on 12 January 2016.
59. Housing Standards Board reviewed this report at its meeting on 18 January 2016.

CONCLUSION

60. The proposed budget shows an estimated net deficit for the year of £1.969m and a projected working balance at 31 March 2017 of £5.257m.

APPENDICES

- Appendix A - HRA Cumulative Growth and Savings
- Appendix B - HRA Estimates
- Appendix C - Impact of High Value Voids
- Appendix D - Re-assessing the HRA Minimum Working Balance

IMPLICATIONS

Place Services (includes Regeneration)

Contained within the report.

Author: **Graeme Bloomer, Head of Place**

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: **Jane Greer, Head of Community Wellbeing**

Governance (includes HR)

None specific.

Author: **Brian Keane, Head of Governance**

Background Papers

CIPFA. LAAP Bulletin 55 – February 2003. Guidance Note on Local Authority Reserves and Balances.

Welfare Reform and Work Bill

Local Government & Housing Act 1989.

Glossary of terms/abbreviations used

CIPFA	Chartered Institute of Public Finance and Accountancy
CPI	Consumer Price Index
GF	General Fund
HRA	Housing Revenue Account
HRS	Housing Related Support
JVCo	Joint Venture Company (ie. Kier Harlow Ltd)
LATC	Local Authority Trading Company
MRR	Major Repairs Reserve

APPENDIX A: - HRA Cumulative Growth and Savings (2016-20120).

Housing Revenue Account 2019/20	<u>£'000</u>	
HRA deficit at 31 March 2020	<u>2,235</u>	
Revised housing asset management plans and delivery.	-4,618	Reduction in work programmes. Maintaining compliance of the Council's housing stock to regulatory requirements. Operating a 'just in time' replacement regime for key components such as kitchens, bathrooms, central heating systems, roofs and external structure of homes. Reduction in fees as a result of the reduction in programmes with efficiency savings from procurement.
Carbon Monoxide monitors	150	Statutory requirement. Statutory and regulatory requirement for the landlord to respond to health and safety priorities. Installing carbon monoxide monitors assists with fire regulatory orders and is considered best practice.
Cyclical Maintenance	840	Regulatory requirement. Requirement for an increase in work programmes, to assist the Council's responsive and programmed works.
Drainage feasibility, street lighting, lift maintenance etc	-165	Reduced demand. Drainage surveys will be undertaken on a priority basis.
Void security	-260	Reduced demand. Reduction due to the disposal of sites, including Phase I of the Priority Estates redevelopment and efficiencies following procurement exercise.
Garage painting and repairs	-400	Reduced programme. 'Just in time' replacement regime for key maintenance programmes forming part of the revised Garage Strategy.
External garage programme	-600	Reduced programme. 'Just in time' replacement regime for key maintenance programmes forming part of the revised Garage Strategy.
Moving Incentives	-50	Reduced demand.

	£'000	
Redecoration Allowances	-30	Reduced demand.
Priority Estates Home Loss Payments	-751	Reduced demand. Removal of Priority Estate from original programme.
Level of dwelling voids from 0.85% to 0.7%	-280	Projected void performance
Bad Debt Provision	-346	Deferral of the introduction of Universal Credit.
Annual increase in garages of 5%	-240	Forms part of on-going Garage Strategy.
Other adjustments	-169	
	<u>-6,919</u>	
"Business Plan" Balance at 31 March 2020	<u>-4,684</u>	
New Minimum Working Balance	-4,547	£1.6m added in respect of High Value Voids (see Appendix A)
Balance above Minimum Working Balance	<u><u>137</u></u>	

APPENDIX B

Housing Revenue Account Summary

	2014/15 Actual £	2015/16 Original £	2015/16 Revised £	2016/17 Original £
EXPENDITURE				
General Management	10,210,656	12,363,002	11,684,690	11,710,084
Special Management	5,246,872	5,635,261	5,391,475	5,573,057
Repairs & Insurance Appropriations	9,145,177	9,417,366	9,246,187	9,477,990
Rents Rates Taxes & Other Charges	16,755	30,000	8,350	30,000
Provision for Bad & Doubtful Debts	152,475	360,000	200,000	200,000
Supporting People Transitional Arrangements	7,226	6,900	6,120	6,100
Major Repairs Reserve (Net Depreciation)	11,003,990	11,270,000	10,811,000	10,777,000
Debt Management Expenses	10,676	13,770	13,770	16,520
Interest Charges	6,824,052	6,768,000	6,784,000	6,677,000
Revenue Contribution to Capital Expenditure	2,533,185	12,110,000	10,498,000	7,559,000
	45,151,064	57,974,298	54,643,592	52,026,751
INCOME				
Dwelling Rents	45,769,430	46,143,000	46,184,000	45,183,000
Garage Rents	2,482,126	957,000	974,000	1,005,000
Other Rents	20,574	22,000	22,000	22,000
Charges for Services & Facilities	3,603,775	4,082,862	3,768,634	3,791,197
Interest Receivable	31,720	44,000	51,000	57,000
	51,907,625	51,248,862	50,999,634	50,058,197
Balance in hand at 1 April	4,113,244	9,698,168	10,869,805	7,225,847
Surplus / (Deficit) for year	6,756,561	(-)6,725,437	(-)3,643,959	(-)1,968,554
Balance in hand at 31 March	10,869,805	2,972,731	7,225,846	5,257,293
<i>Figures based on:</i>				
<i>Housing Stock</i>				
	No.	No.	No.	No.
<i>Housing Stock at 1 April</i>	9,715	9,617	9,637	9,509
<i>Less Right to Buy Disposals</i>	(-)78	(-)60	(-)69	(-)60
<i>Other Disposals</i>	-1	(-)65	(-)77	(-)69
<i>Plus Additions</i>	1	18	18	0
<i>Housing Stock at 31 March</i>	9,637	9,510	9,509	9,380
<i>Weekly Charges</i>				
<i>Average Rent (per dwelling)</i>	£91.59	£93.60	£93.60	£92.66
<i>Average Service Charge (per dwelling)</i>	£1.79	£1.92	£1.92	£2.05
<i>Average Rent (per garage)</i>	£8.20	£8.36	£8.36	£8.78

APPENDIX C

Government Announcement on the Sale of “High Value” Council Homes

The Government is introducing the extension of Right to Buy (RTB) to housing association tenants.

As a means of providing financial compensation to housing associations for the loss of properties under this proposal and to support a one for one replacement programme, the Government has indicated that high value void Council properties should be sold and amounts raised by local authorities. It gave illustrative high values of properties by region. Locally it was estimated that 64 Council properties in Harlow may fall into this category. Details are yet to be finalised but the Housing and Planning Bill, before Parliament is expected to require councils to pay the Treasury equivalent to the market value of high value housing likely to come vacant in the financial year, and consider selling high value homes

At this stage, the market value of “high value housing” has not been determined and it should be noted that Councils will be under no obligation to sell homes, but would otherwise need to find the resources to make the necessary mandatory payments. The policy when finalised will take effect from 2016/17.

Councils will be assessed on a notional amount ahead of the new financial year, which will be subject to consultation and a determination much like the pre self-financing subsidy system. The notional amount will be based on the market value of high value properties becoming void in the previous year. It is anticipated, but not clear, that Councils will receive an adjustment for loss of future rental income in a similar way as it currently does for RTB reinvigoration receipts.

The notional amount is intended to pay for deposits given by housing associations to their tenants exercising a Right to Buy. It is unclear how the Exchequer will, if at all, correlate the receipts from Councils with the actual demand for Right to Buy.

At the time of publication, the Department for Communities and Local Government (DCLG) has “gathered detailed local data to inform development of the Sale of High Value Assets policy”. Councils were required during December 2015 to provide “granular data” on the market value of each property as at 31 March 2015 as well as information on tenure type and void turnover.

The outcome of DCLG’s deliberations over the development of policy, and the impact of this policy, is unknown at this stage. Professional housing bodies have suggested a wide range of notional sums payable, in one instance as high as £10m per year for Harlow. To include such an amount in a set of estimates for 2016/17 would be speculative.

It is reasonable to assume that Harlow would need to sell high value dwellings and, to administer this, will create a time lag between decision and receipt from sale. Based on 64 properties there may be a temporary cash flow effect of approximately £1.6m. This amount has been included as an addition to the Minimum HRA Working Balance. Should consultation, which might be expected to commence at the earliest in February 2016 (i.e. after formal Council approval of the Annual Budget) and the determination create a situation in which an HRA surplus is at risk, Officers will take action to amend the budget and bring an emergency set of estimates before a future Council meeting.

APPENDIX D

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 Chief Financial Officer (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.

Factor	Response
Budget assumptions.	
The treatment of inflation and interest rates	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.
Estimates of the level and timing of capital receipts.	Right to Buy sales continue at a steady rate as a result of the Government’s RTB Reinvigoration Policy. Revised Estimate 69 RTB sales in 2015/16 and 60 sales in 2016/17. Significant variances would affect income receivable, although offset by an adjustment to pooling payment.
The treatment of demand led pressures.	Through budget monitoring process.
The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments.	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 2015/16 is based on the projected Building Maintenance Index at March 2015, of 1.4% and estimated at 0.1% at March 2016 to take effect from 1 April 2016. Any change in estimated uplift will have a positive or adverse effect on balances. Planning for the transfer of services supplied by the JVCo contract to a Local Authority Trading Company (LATC) from January 2017 is in hand. The exercise may cause unforeseen variances in pricing.

Factor	Response
The availability of other funds to deal with major contingencies and the adequacy of provisions.	Government policy is not fully developed in the areas of high value void sales (see Appendix C), due to be implemented in 2016/17, and in higher rents for households on higher incomes, due to be implemented in 2017/18. It is reasonable to assume at this stage that £1.6m <i>might</i> be the cashflow impact of a high value sales policy. 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 mostly weak, however, the grounds maintenance reserve has benefitted in recent years from the increase in Right to Buy sales.
<i>Financial standing and management</i>	
The overall financial standing of the authority (level of borrowing, debt outstanding, council rate tax collection rates etc).	High rent collection percentage. Welfare Reform is likely to have a negative, unquantified impact on rent collection rates and costs.
The authority's track record in budget and financial management including the robustness of the medium term plans.	The HRA Business Plan includes assumptions for rents in line with draft Government rent policy. The financial security of the Council is undermined by the change in Government rent policy whereby rents are reduced by 1% per year for four years from April 2016. This resulted in a detailed review of service provision to ensure that there is long term sustainable funding for services. Additionally HRA Business Planning has taken on increased focus to ensure the sustainability of the HRA over 30 years.
The authority's capacity to manage in-year budget pressures.	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.
The strength of the financial information and reporting arrangements.	
The authority's virement and end of year	Closure of accounts – free of qualification from auditor. New regulations are challenging for the

Factor	Response
procedures in relation to budget under/overspends at authority and departmental level.	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.
The adequacy of the authority's insurance arrangements to cover unforeseen risks.	The Council will continue to replenish the Insurance Fund as approved when setting the 2015/16 budget.

Conclusion: The Minimum Working Balance should be maintained at or above £2,727,000 at 31 March 2016 and £4,327,000 at 31 March 2017 the latter increasing to mitigate the possible impact of high value voids on the HRA.