

**Manchester City Council  
Report for Resolution**

**Report To:** Executive - 11 February 2009  
Resources and Governance Overview and Scrutiny  
Committee – 23 February 2009

**Subject:** Housing Revenue Account Budget 2009/10 to 2011/12

**Report of:** The Interim Director of Housing and the City Treasurer

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**Summary**

To present details of the proposed Housing Revenue Account (HRA) budget for 2009/10 and forward indicative estimates for 2010/11 and 2011/12.

**Recommendations:**

The Committee is requested to:

- (a) Note the context for the Housing Revenue Account and the related budget and service issues.
  - (b) Approve the Housing Revenue Account Budget 2009/10 as presented in Appendix 1.
  - (c) Agree the proposed average increase in rental and associated charges of 5.64%
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**Wards Affected: All**

<b>Community Strategy Spine</b>	<b>Summary of the contribution to the strategy</b>
Performance of the economy of the region and sub region	A healthy and fit for purpose housing market is essential for the economic growth of the City. People living in energy efficient housing in good repair are more likely to stay in good health and so be able to obtain employment and to stay in employment.

Reaching full potential in education and employment	Appropriate housing to ensuring that residents achieve their full potential. Children living in energy efficient housing in good repair and of adequate size are more likely to stay in good health and have suitable conditions and space for studying.
Individual and collective self esteem – mutual respect	Quality housing is intrinsically linked to resident's health, well being and feeling about their community.
Neighbourhoods of Choice	Improving the quality and management of the housing offer is fundamental to creating neighbourhoods where people choose to live.

**Full details are in the body of the report, along with any implications for:**

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

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**Financial Consequences – Revenue**

None – the Housing Revenue Account is a “ring-fenced” account.

**Financial Consequences – Capital**

None

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**Background documents (available for public inspection):**

Budget guidelines issued by the City Treasurer

CLG Housing Revenue Account Subsidy Circulars  
Executive Report 13 February 2008 – Housing Revenue Account Budget  
2008/09 – 2010/11  
Executive Report 27 June 2007 – Final Out-turn of the Housing Revenue Account 2006/07

## **1 INTRODUCTION**

1.1 The Housing Revenue Account (H.R.A.) budget represents the cost of managing and maintaining the Manchester Housing stock of some 17,600 homes as at 1<sup>st</sup> April 2009 (on the assumption that the East transfer has occurred before that date), and should, as a statutory requirement balance taking one year with another. Alongside this requirement to balance are two ongoing pressures that continue to be addressed in the budget strategy for this current year as in last years budget. These pressures are:

- The need to respond to the Government's Rent Convergence Policy; and
- To need to meet the decent homes national PSA target.

The HRA can only contain entries that relate to the landlord function and that are specified;

- By Statute
- By Statutory Instrument
- By the direction of the Secretary of State.

## **2 STATUTORY DUTIES IN DETERMINING THE HRA STRATEGY**

2.1 Section 76(2) of the Local Government and Housing Act 1989, sets out the main duty placed on the Council in relation to the keeping of the HRA and provides that the Council must formulate proposals in respect of HRA income and expenditure for the financial year which, on the best assumptions and estimates that the Council is able to make at the time, ensure that the HRA does not show a debit balance.

2.2 Under S74 of the local Government and Housing Act 1989, the Council, as a Local Housing Authority, is required to keep a Housing Revenue Account in accordance with proper practices. The Council has the responsibility to determine a strategy that is designed to ensure that the HRA is in balance taking one year with another. In doing so, they should take into account the following issues:

- The need to determine rent levels for 2009/10 having regard to the obligations placed on the Council to set rents at reasonable levels (Section 24 of the Housing Act 1985) and the introduction in 2002 of the Government's policy on rent restructuring for social housing. The Government policy has been reviewed and

as a result the target rent levels have been amended. This budget takes account of the revised targets.

- The need to pursue sound accounting practices.

2.3 Since 1 April 1990, under the provisions of the Local Government and Housing Act 1989, the Housing Revenue Account has been ring-fenced. This means that it must, in general, now balance on a year-to-year basis, so that the costs of running the Housing Service, in terms of debt charges and management and maintenance expenditure, must be met from income for the account in any given year. The main source of income, other than rent, is government subsidy, which is computed from the notional HRA, comprising the government's view of expenditure that an Authority should have, and the level of rents that should be set. The HRA is therefore reliant on the Government's subsidy rules. The current economic climate (particularly the RPI at September 2008) has impacted upon the Governments' strategy for achieving target rents, with convergence now forecast to be by 2023/24. However CLG have stated that they propose to return to an earlier convergence date in 2010/11, assuming that economic conditions permit.

### **3 PROGRESS AGAINST THE BUDGET STRATEGY 2008/09**

3.1 The budget strategy that set the base for 2008/09 was based on a rent increase for that year in accord with, and making appropriate progress towards, the Government's rent convergence target whilst maintaining service and investment levels. The strategy also made certain assumptions:

- efficiency savings
- a reduction in revenue contributions to the capital programme (RCCO)

The budget for 2008/09 anticipated the transfer of the inner south estates to City South Manchester Housing Trust and the final large scale stock transfer of the estates East area. Whilst the former did, in fact, take place (and East is still forecast to transfer before 31 March 2009) some minor re-phasing of the Housing Investment Strategy programme, has caused some variances against budget in terms of rental income, repairs and maintenance and subsidy allowances, which results in an improvement to the H.R.A. position. However investment income will be lower than that budgeted due to the recent reduction in interest rates. The net effect of the above is forecast to be broadly neutral

3.3 In line with previous approvals the HRA also funded replacement windows in the Hendham Vale area (via RCCO)

3.4 There are also additional reserves brought forward from 2007/08 following completion of the final subsidy claim.

#### **4 BUDGET STRATEGY 2008/09 – 2010/11**

- 4.1 The resource implications of the Budget Strategy are displayed in detail within Appendix 1. The table shows statutory compliance in that a credit balance is forecast at the end of each year within the Budget Strategy period. A credit balance is necessary in order to protect the Council from future risk e.g. a reduction in the level of housing subsidy. The budget for 2009/10 is informed by the Final Determination issued by CLG
- 4.2 As can be seen, during 2009/10 there is forecast to be an excess of income over expenditure of some £429k, which will flow into reserves.
- 4.3 In recent years it has been possible to make additional payments into the reserves of existing PFI schemes in order to mitigate the pressure on the HRA in forward years. Further additional payments are proposed throughout the period covered by this report.
- 4.4 At its meeting in November 2008, Executive agreed a report proposing a 31% increase in charges to residents living in homes serviced by the Councils' communal domestic heating schemes effective from January 2009. The report stated that following revisions to the model for calculating heating charge increases and further increases in the Councils' gas cost, the net cost to be born by the H.R.A. was likely to be £460k in 2008/09. This is forecast to rise to £498k in 2009/10 and is contained within the table at Appendix 1.
- 4.5 The key budget strategy principles are as follows:-

#### **5 Rent Levels**

- 5.1 Within the HRA, rent restructuring to achieve social rent reform continues. However, due to the high rate of RPI at September 2008, there are now uncertainties surrounding convergence date. The city wide average planned increase for 2009/10 is 5.64% (2008/09 4.92%). This compares favourably with the CLG assumption of a 6.2% fixed average percentage increase in the Guideline Rent which is used for Subsidy purposes.

The above increase has been included in the Budget presented at Appendix 1.

- 5.2. It is proposed to apply the 5.64% increase to charges associated with rent i.e. garage, furniture and service charges.

## **6 Total Management Costs**

- 6.1 The management costs, shown in the appendix, include the estimates of the cost of the Management Fee paid for the management and maintenance of our properties by Northwards Housing (the ALMO) and is now reported separately.

## **7 Housing Investment Strategy**

- 7.1 Overall the City would have required some £1 billion over the period to 2010/11 to bring the Manchester's housing to a good standard and maintain them to meet the "decent homes" national PSA target. The PSA target could not be delivered on traditional resources alone and, as such, the Housing Investment Options has been initiated and is progressing. This budget strategy reflects the programme of:

- The successful completion in Dec 2005 of the transfer of management to Northwards Housing Trust of some 13,000 properties in the north area. Also, the successful completion in October 2006 of the transfer of the West Wythenshawe estates, some 6,000 properties, to Parkway Green Housing Trust and during the current financial year some 6,000 properties were transferred to Southway Housing Trust.
- During 2008/09, the inner south estates have been transferred to City South Manchester Housing Trust and the final large scale stock transfer of the estates east areas is planned to transfer by the end of the financial year.
- The completion of the Brunswick PFI is anticipated during 2010/11. The planned date for completion of the Collyhurst PFI is Spring 2012.
- Transfer of the remaining stock in West Gorton along with a number of "miscellaneous properties" will be ongoing through this budget period

## **8 Cost of Pay Award**

- 8.1 The cost of implementing the outcome of the job evaluation put pressure on all services and will continue to do so until the reduction in the level of pay protection starts to impact. However, this cost has been funded without detriment to the services.

## **9 Housing Subsidy Grant**

- 9.1 Housing Subsidy Grant is delivered on an annual basis. Whilst the budget is based on the recently issued Final Determination there is no

certainty beyond this in either formula or resources allocated. Within the Grant, the major allowances were increased by a range of factors (Major Repairs Allowance by 6.91%, Management Allowance by 2.81% and Repairs Allowance by 2.34%)

The HRA subsidy determination is calculated on the **Notional HRA**, which is the Governments' assumptions about the Authority's housing stock.

Members should be aware that Government has recently been conducting a review of HRA finance. The purpose of the review is to ensure that there is a sustainable, long term system for financing council housing and that the system is consistent with wider housing policy including the establishment of a regulator of social housing. The review is not due to make its final report until spring 2009, however early indications suggest that some form of debt redistribution coupled with self-financing is the current preferred option. Notwithstanding this, in the absence of any firm indications, the forward strategy beyond the budget year is based on the assumption of an annual 2% increase in the existing methodology.

## **10 Revenue Contribution to Capital Outlay (RCCO)**

- 10.1 With the substantially reduced public sector programme of investment required, no provision has been made for those elements of maintenance spend that would have been complementary to a capital programme.
- 10.2 A revenue contribution to capital outlay is provided for (in 2009/10 only) relating to the capital works planned for the Hendham Vale area in order to carry out the necessary capital works within that area. The funds to carry out this work are being made available, as agreed, from the M60 compensation monies received and retained in a discrete fund within the HRA Reserve.

## **11 Provision for Bad Debts**

- 11.1 Following agreement with the external auditors, the provision for bad debts was revisited at the end of 2007/08 and the overall provision is now based on the CIPFA formula. The budget year contains a further contribution based on 1% of the budgeted rental income.

## **12 Budget Risks**

- 12.1 The resources provided for within the strategy are in line with the planned reductions in stock. There are risks, however, if;
  - resources cannot be reduced accordingly e.g. staff numbers do not reduce in line with stock reductions,

- the housing investment options programme changes,
- recharges from service departments within the Council may not reduce strictly in line with the lower demand for those services.

12.2 Any changes to resources required will need to be found from savings/efficiencies generated within the HRA.

12.3 Interest rates have shown a recent significant reduction during the current economic down-turn. The budget for both interest payable and receivable has been set to reflect this. The assumption is that the low rates currently being experienced will continue for the period covered by this report.

12.4 The Budget Strategy makes several assumptions in regards to the rental income. This income figure is therefore subject to the fact that right to buy sales have reduced substantially over the last year and the forecasts of sales have been similarly reduced, however, demand may rise again and may exceed that budgeted and thereby lead to loss of rental income. Similarly, repairs and maintenance costs and subsidy income will also change.

12.5 **Amortised Premia (net of Discounts)**

Premiums are payable when loans are redeemed early and the lender can only re-lend at a lower rate of interest. Whereas discounts are receivable when loans are redeemed early and the lender can re-lend at a higher rate of interest.

12.6 **Strategic Housing Implementation Programme (S.H.I.P.)**

In terms of the H.R.A. the main impact of the S.H.I.P. work streams has been to recognise the transfer of the Homelessness function within the budgets.

**13 CONCLUSION**

13.1 The proposals contained in this report will ensure service delivery and investment is maintained. In the context of future restrictions on the HRA the recommendations will help secure HRA services for several years to come.

13.2 Under the provisions of the Local Government and Housing Act 1989, the Authority must ensure that the HRA does not result in a debit balance. The proposed budget for 2009/10 and the two following years, displayed in Appendix 1. shows this provision being met.

## **14.0 Contributing to the Community Strategy**

### **(a) Performance of the economy of the region and sub region**

A healthy and fit for purpose housing market is essential for the economic growth of the City. People living in energy efficient housing in good repair are more likely to stay in good health and so be able to obtain employment and to stay in employment. Setting rents at an appropriate, affordable level will assist in this.

### **(b) Reaching full potential in education and employment**

Appropriate housing is vital to ensuring that residents achieve their full potential. Children living in energy efficient housing in good repair and of adequate size are more likely to stay in good health and have suitable conditions and space for studying. Setting rents at an appropriate, affordable level will enable tenants to live in locations which meet their aspirations in terms of education and employment.

### **(c) Individual and collective self esteem – mutual respect**

Quality housing is intrinsically linked to residents' health, well being and feeling about their community. Setting rents at an appropriate, affordable level will assist in this.

### **(d) Neighbourhoods of Choice**

Improving the quality and management of the housing offer is fundamental to creating neighbourhoods where people choose to live. Setting rents at an appropriate, affordable level will enable tenants to live in locations which meet their aspirations in terms of preferred neighbourhood.

## **15.0 Key Policies and Considerations**

### **(a) Equal Opportunities**

None

### **(b) Risk Management**

Under the provisions of the Local Government and Housing Act 1989, the Authority must ensure that the Housing Revenue Account does not result in a debit balance. The proposal rent setting within this report – together with regular budget monitoring – will assist in managing this risk.

### **(c) Legal Considerations**

The City Solicitor has reviewed this report and provided a commentary which has been incorporated within.

**APPENDIX 1**

**Housing Revenue Account 2009/10 – 2010/11**

	<b>2008/09 Forecast £000s</b>	<b>2009/10 Plan £000s</b>	<b>2010/11 Plan £000s</b>	<b>2011/12 Plan £000s</b>
<b>Balance brought forward</b>	<b>-39,377</b>	<b>-39,934</b>	<b>-40,363</b>	<b>-40,733</b>
<b>Income</b>				
Rental Income	-68,590	-55,951	-57,071	-58,212
Other Income - contributions	-17,447	-1,718	-1,752	-1,787
Service Charges	-18,283	-5,154	-5,257	-5,362
Major Repairs allowance	-12,041	-9,538	-8,947	-8,553
Housing Subsidy Retained Stock and P.F.I.	-22,617	-15,124	-15,794	-15,389
<b>Total Income</b>	<b>-138,978</b>	<b>-87,485</b>	<b>-88,821</b>	<b>-89,303</b>
<b>Expenditure</b>				
Maintenance and Repairs	10,636	4,299	4,385	4,473
Maintenance and Repairs - Northwards	11,901	12,128	12,371	12,618
P.F.I. Contractor Payments	15,864	15,667	19,398	18,478
Supervision and Management	51,353	17,488	17,838	18,195
Supervision and Management - Northwards	7,834	8,023	8,183	8,347
Council Tax, Chief Rents	139	146	149	152
Contribution to Bad Debts Reserve	620	560	571	582
Depreciation	17,728	10,888	10,888	10,888
Debt Management Expenses	343	360	367	375
<b>Total Expenditure</b>	<b>116,418</b>	<b>69,559</b>	<b>74,150</b>	<b>74,108</b>
<b>NET COST OF SERVICE ( - ) = surplus</b>	<b>-22,560</b>	<b>-17,926</b>	<b>-14,671</b>	<b>-15,195</b>
Interest payment and similar charges	24,723	18,614	17,692	18,786
Amortised Premia (net of discount)	3,581	106	-894	-1,110
HRA Investment Income/Mortgage Interest	-1,299	-558	-556	-555
<b>Sub-total</b>	<b>27,005</b>	<b>18,162</b>	<b>16,242</b>	<b>17,121</b>
Revenue Contribution to Capital Outlay	685	685	0	0
Excess of Depreciation over Major Repairs Allowance	-5,687	-1,350	-1,941	-2,335
<b>Sub-total</b>	<b>-5,002</b>	<b>-665</b>	<b>-1,941</b>	<b>-2,335</b>
<b>In-year balance ( - ) = surplus</b>	<b>-557</b>	<b>-429</b>	<b>-370</b>	<b>-409</b>
<b>CUMULATIVE BALANCE CARRIED FORWARD</b>	<b>-39,934</b>	<b>-40,363</b>	<b>-40,733</b>	<b>-41,142</b>
<b>Analysis of cumulative balance carried forward</b>				
General Reserve	3,950	2,762	2,482	140
Earmarked General Reserve	1,530	1,530	1,530	1,530
P.F.I. Reserves				
General Reserve	3,200	3,200	3,200	3,200
Ardwick	14,355	15,447	15,925	16,357
Heating	1,748	1,641	1,456	1,266

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Miles Platting	11,988	12,489	12,846	13,355
Brunswick	1,527	1,590	1,590	3,590
Collyhurst	1,636	1,704	1,704	1,704
<b>Total Reserves</b>	<b>39,934</b>	<b>40,363</b>	<b>40,733</b>	<b>41,142</b>