

**Manchester City Council
Report For Resolution**

Report To: Executive - 28 July 2010

Subject: Housing Revenue Account – Outturn 2009/10

Report of: The Director Of Housing And The City Treasurer

SUMMARY

The report advises the Executive of the Final Outturn for the Housing Revenue Account (HRA) 2009/10.

RECOMMENDATIONS

The Executive is recommended:

1. To note the final outturn position of the HRA for 2009/10.
2. To note the HRA Reserves position as at 31 March 2010.

FINANCIAL CONSEQUENCES FOR THE REVENUE BUDGET

The report identifies the need for continuing action to ensure that the Housing Revenue Account is kept in balance during the next few years. This is particularly relevant due to;

- The numbers of retained stock has reduced significantly due to the stock transfer programme.
- The funding of both current and future PFI schemes. These will continue to require careful financial planning and management.

FINANCIAL CONSEQUENCES FOR THE CAPITAL BUDGET

None

Wards Affected: All

Community Strategy Spine	Summary of the contribution to the strategy
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

CONTACT OFFICERS

EXTENSION

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BACKGROUND DOCUMENTS

1. Report of the Director of Housing and the City Treasurer on the Housing Revenue Account Budget 2009/10, Executive, 11 February 2009.
2. Outturn Report for 2008/09, Executive, 22 July 2009.

1 Background

- 1.1 Under the provisions of the Local Government and Housing Act 1989, since 1 April 1990, the Housing Revenue Account (HRA) has been a ring-fenced account. Each year the HRA must balance and not record a deficit on the reserves. A balanced HRA budget was presented to the Executive Committee on 11 February 2009.
- 1.2 The move towards the introduction of International Financial Reporting Standards (I.F.R.S.) in 2010/11 has necessitated the reclassification of certain types of expenditure within the HRA – mainly PFI charges and Interest. For a better appreciation of variances, the corresponding budget figures have been adjusted accordingly. However this has not effected the bottom line position.

2 Final Outturn Report 2009/10

- 2.1 The 2009/10 outturn position in respect of the HRA is shown at Appendix 1; this compares the actual figures against the original budget, together with the variance. It shows the council has total HRA reserves at the end of the financial year of £48.989m compared with the original budget of £40.363m, an increase of £8.626m. Of this increase £6.679m relates to income from the VAT shelter payment 2008/09 brought forward which has been allocated to reserves and the remainder of £1.947m is the surplus on the HRA for 2009/10.
- 2.2 A summary of the major variations contributing to the overall surplus of £1.947m in 2009/10 is identified in the table below and details are set out in the following paragraphs:-

Income/Spend Area	Variance 2009/10 £m
Reduced Rental Income	3.112
Reduced Housing Subsidy Income	3.764
Reductions in Interest Payable	(6.091)
<i>Net Income – Subsidy Related</i>	<i>0.785</i>
Other Income	0.216
VAT Shelter Credits	(4.882)
Maintenance and Repairs	1.055
Payments to Northwards	0.087
PFI Contractor Payments	1.052
Supervision and Management	0.694
Contribution to Bad Debts	(0.324)
RCCO	(0.685)
Other (net)	0.055
TOTAL	(1.947)

Income – Subsidy Related - including impact of Interest Payable adjustment (£785k underachievement)

- 2.3 The housing rental income is £3.112m below the budget of £55.951m. This is primarily due to the acceptance of the Governments' proposed rent increase reduction (i.e. from 6.2% to 3.1%) although this was agreed after the budget was approved; the reduction in rental income was compensated for by an increase in subsidy. Furthermore, voids for the year were 2.3%; this is 0.3% higher than assumed as part of the budget setting process. The housing subsidy is adjusted (increased) to take account of the reduced rental income.
- 2.4 However, the subsidy received was subsequently reduced to allow for the lower interest payable on debt during the year, as assessed through the Consolidated Rate of Interest (CRI) (£6.091m net underspend). The CRI is used by the Government to determine what amount of subsidy is paid to each local authority in order to fund the Councils' cost of HRA borrowings. It is based on the average interest rates across the whole of a local authority's borrowing portfolio. The net position in relation to the above subsidy adjustments is a reduced subsidy allowance of £3.764m compared against the original budget. .

Other Income (£216k shortfall)

- 2.5 Service Charges and Contributions are £216k (net) less than the budget. This is due to a reduced demand for Services (such as IT, publications and design, research and statistics) from both Registered Social Landlords (RSLs) and other Council Departments.

VAT Shelter Credits (£4.882m additional income)

- 2.6 The receipts of £4.882m arise as part of a sharing arrangement in respect of the VAT costs of decency work undertaken following stock transfer by the RSLs. In previous years these receipts have been paid directly into the reserve and ring-fenced against any possible liabilities arising from environmental warranties in connection with the various transfers. From this year the receipts were recorded as part of the revenue income to the overall HRA before transferring to the reserve which was not budgeted for at the start of the year.

Maintenance and Repairs (£1.055m overspend)

- 2.7 £855k of the overspend has occurred due to outstanding commitments in respect of work to properties transferred on 31.03.2009. The remainder is due to necessary repair work on housing stock properties during the year, in particular the retained stock.

Payments to Northwards (Maintenance & Repairs and Supervision & Management) (£87k overspend)

- 2.8 Northwards, the Councils' ALMO receives 90% of the maintenance & repair and supervision & management allowances from the HRA Subsidy - based on the number of properties managed by Northwards itself. The budget was based on an estimated number of properties managed during the year (allowing for voids). The actual payments vary due to factors, which includes the movement of stock numbers.

P.F.I. Contractor Payments (£1.052m overspend)

- 2.9 P.F.I. is a mechanism for both enabling the Decent Homes standards and for the transformation of poor quality estates. However, P.F.I. schemes entail their own risks including affordability of Unitary Charges and the ongoing assessment of the contribution to Smoothing Reserves. In year there were unforeseen costs of around £136k relating to enhancements to the original specification etc, but the majority of costs were planned unitary charges, which are payable to the PFI contractors. This has resulted in an overspend due to incorrect budgets being applied as part of the business planning process. This has been corrected for the current financial year.

Supervision and Management (£694k overspend)

- 2.10 Supervision and Management costs represent the direct gross costs of running the housing service, and include staffing, premises and other costs.

The major variations relate to assumptions around the timing of the two proposed PFI schemes and the small scale stock transfer and the resulting capacity to release savings from HRA supervision and management costs. This resulted in a net overspend of £277k from across Estate Management and the Housing Investment Options team. The structure is currently being reviewed, so the revised structure along with the imminent transfer of the West Gorton Estate will help to address this going forward. Further to this there is an overspend of £617k on Communal Heating due in the main to costs associated with the MECO energy scheme which did not transfer with the stock to Eastlands at 31st March 2009 as originally envisaged. Options are currently being drawn up to establish how the energy arrangements will be operated in the future. This has been offset by net underspends elsewhere of £200k.

Contribution to Bad Debts (£324k underspend)

- 2.11 The provision continues to be calculated in accordance with the CIPFA recommended formula. This takes account of stock transfers and tenant's arrears. Due to the transfer arrangements the provision against bad and doubtful debts does not have to be as large as that calculated in the budget as the total debt has reduced.

Depreciation

- 2.12 The expected depreciation charge for the year reflects capital expenditure, increases in asset values, shortening of some asset lives and the inclusion of depreciation on PFI properties now accounted for on the Balance Sheet following the changes required by IFRS. The Major Repairs Allowance (MRA) represents a proxy for depreciation and any charge in excess of this is compensated for in the depreciation adjustment elsewhere within the HRA accounts so there is no impact on the bottom line.

Revenue Contributions to Capital Outlay (£685k underspend)

- 2.13 Provision for a revenue contribution towards capital was allowed for in 2009/10 for the Hendham Vale tower block refurbishment, however, this scheme was completed in 2008/09 and therefore funding was not required in 2009/10, therefore, resulting in a saving of £685k.

Other (£55k net overspend)

- 2.14 There are a number of other minor under and overspends, which amount to a net £55k overspend.

3 Reserves and Balances

- 3.1 Appendix 2 sets out details of the HRA reserves as at 31 March 2010. This includes not only the General Reserve but other reserves. The PFI reserves are necessary to meet future requirements of the schemes. Whilst Housing Subsidy is paid towards these schemes on an equal annual basis each year, the actual expenditure varies. Therefore these reserves act as a smoothing fund to enable the projects to be financed in later years.

- 3.2 The residual liabilities fund is included within the general reserve and was established to meet potential warranty commitments following stock transfers particularly in relation to Environmental Works. Work is currently ongoing to review the level of reserve which should prudently be set aside to meet potential risks in excess of the insurance arrangements already in place.

4 Prudential Indicators

- 4.1 Prudential Indicators were introduced as part of the prudential borrowing regime, which replaced the former controls on borrowing through credit approvals. Each year the Council sets various indicators as part of the budget process and then monitors throughout the year that these indicators are not breached. The final performance against the original targets is given below.

Prudential Indicator	Target 2009/10	Actual 2009/10	Target Breached Y/N
Financing Costs to Net Revenue Stream	21%	15%	N
Capital Financing Requirements (as at 31 March)	£465m	£459m	N

5 Conclusion

- 5.1 The HRA has recorded a surplus of £2.376m in 2009/10 against a budget of £429k. This includes £4.882m of VAT shelter receipts that have not previously been budgeted for.
- 5.2 The PFI Reserves have increased year on year, and these are considered to be at an appropriate level to meet expected liabilities, but will be reviewed each year in line with the PFI business plan.
- 5.3 Non-PFI reserves have increased by £8.045m to a figure of £15.537m. This is made up of both the general reserve and the residual liabilities fund. Within the overall reserve the general reserve has decreased by £2.441m against the original budget, as a result of overspends in year and will need to be carefully monitored and controlled during 2010/11. However, the Residual Liabilities Fund balance is £11.050m as at year-end, and work is currently ongoing to review what level of reserve is deemed to be prudent.
- 5.4 The HRA and Housing Subsidy claim will be subject to statutory audit, and should this result in any material changes to the figures above; these will be reported back to Members.

HRA Outturn 2009/10

Appendix 1

	2009/10 Budget £000	2009/10 Outturn £000	Variance £000 (under)/over spend
Brought Forward	(39,934)	(46,613)	(6,679)
Income			
Rents (gross)	55,951	52,839	3,112
Other Income	6,872	6,656	216
Major Repairs Allowance (MRA)	9,538	9,558	(20)
Housing Subsidy	15,124	11,360	3,764
VAT Shelter credits	0	4,882	(4,882)
Total Income	87,485	85,295	2,190
Expenditure			
Maintenance and Repairs	4,299	5,354	1,055
Maintenance and Repairs - Northwards	12,128	12,163	35
PFI Contractor Payments	6,443	7,495	1,052
Supervision & Management	17,488	18,182	694
Supervision & Management - Northwards	8,023	8,075	52
Council Tax, Chief Rents etc	146	244	98
Contributions to Bad Debts	560	236	(324)
Net Depreciation, Impairment and PFI Related Charges	14,156	17,009	2,853
Debt Management Expenses	360	317	(43)
Total Expenditure	63,603	69,075	5,472
NET COST OF SERVICES (-) = surplus	(23,882)	(16,220)	7,662
Interest Payable and similar charges	24,570	18,662	(5,908)
Amortised Premia (net of discount)	106	106	0
HRA Investment Income / Mortgage Interest	(558)	(741)	(183)
sub-total	24,118	18,027	(6,091)
Other			
Revenue Contribution to Capital Outlay	685	0	(685)
Excess of Depreciation over Major RA	(1,350)	(4,183)	(2,833)
Other	(665)	(4,183)	(3,518)
BALANCE - (-) = surplus	(429)	(2,376)	(1,947)
CUMULATIVE BALANCE - (-) = surplus	(40,363)	(48,989)	(8,626)

HRA Reserves

Appendix 2

	Closing Balance 2009/10 £000 Outturn
General Reserves available	4,487
Earmarked Reserves for Residual Liabilities	11,050
Total Available Reserves (Excl PFI's)	15,537
Ardwick PFI	14,525
Heating PFI	1,842
Miles Platting PFI	13,896
Brunswick PFI	1,540
Collyhurst PFI	1,649
PFI Reserves (1)	33,452
Total HRA Reserves	48,989

Note 1 Smoothing Fund to enable PFI scheme to be funded in later years