

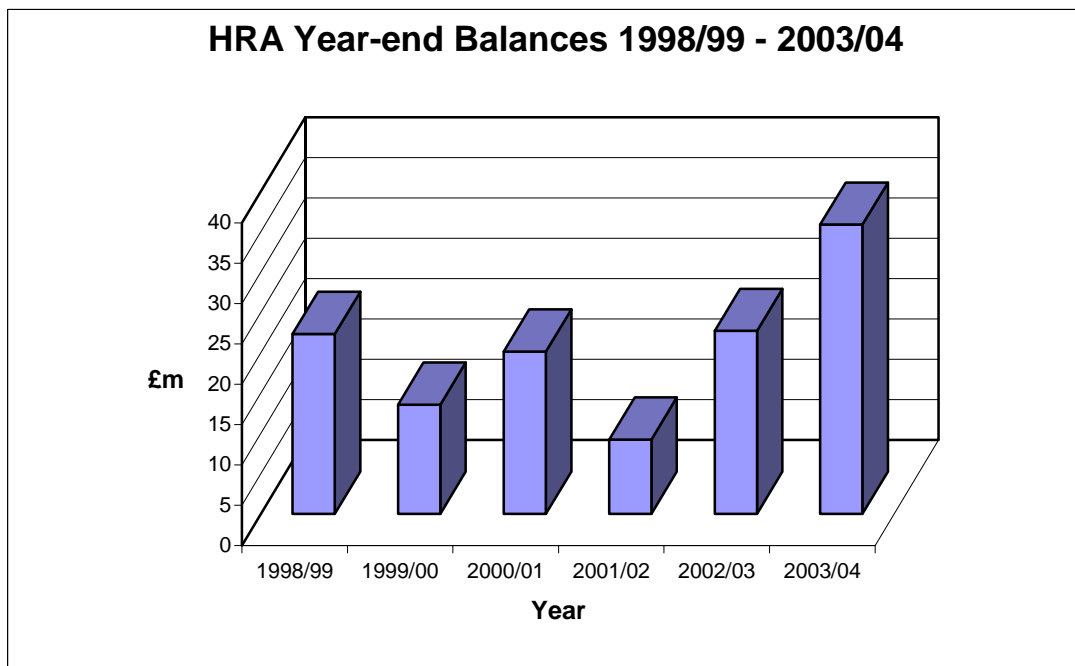
Item No: 1	Classification: Open	Date: 14 October 2004	Meeting: Regeneration and Resources Scrutiny
Report Title:		Housing Revenue Account Reserves and Balances	
Ward(s) or groups affected:		All	
From:		Strategic Director of Housing	

Introduction

1. The Housing Revenue Account (HRA) reflects the statutory requirement under Schedule 4 of the Local Government and Housing Act 1989 to account separately for local authority housing provision. It shows the major elements of cost in providing and managing the Council's housing stock and how this expenditure is met from rents, leaseholder service charges, housing subsidy and other income.
2. The level of balances held by the HRA are decided in consultation with the Director of Finance as Statutory Finance Officer under the Local Government Act 1972.
3. Scrutiny Committee is asked to note the report.

Reserves and Balances

4. Balances on the HRA for the last 6 years are summarised in the chart below:



5. In more detail, HRA Balances and Reserves for the last 3 financial years are as follows:

Table 1. Reserves and Balances Detail

	2001/02 £'000	2002/03 £'000	2003/04 £'000
EARMARKED RESERVES			
Contingency Fund	-3,000	-6,000	-6,000
Insurance Reserve	-700	-700	-2,000
Decent Homes Reserve	0	-5,630	-12,250
Housing Management	-774	-800	0
RTB Future Income Loss	0	0	-3,300
Office Accommodation including DDA compliance	-317	-400	-400
	-4,791	-13,530	-23,950
WORKING BALANCES			
Service Improvements	-3,507	-5,417	-6,930
Best Value Reviews	-6	-500	-1,616
Information Technology	-219	-861	-1,240
Corporate Initiatives	-694	-2,371	-4,110
	-4,426	-9,149	-13,896
TOTAL BALANCES	-9,217	-22,679	-37,846

Earmarked Reserves and Working Balances

6. The Council has made significant contributions to earmarked HRA reserves over the last three years, specifically the Decent Homes Reserve, established to assist the Council in meeting the Government's Decent Homes Standard by 2010.
7. This reserve has built up because there are difficulties in transferring these funds directly into the Investment Programme:
- (a) The introduction of the Commonhold and Leasehold Reform Act 2002 has meant an increased duty on the authority to consult, which delays the commissioning and execution of works;
 - (b) Any significant increase in the Investment Programme will, if there are not sufficient suitable contractors, lead to increased inflation in building prices, and there is a need to build capacity or programme work over a longer period as a result;

- (c) There is not the capacity in the organisation to take on a substantial increase in major capital works, in the short term; and
 - (d) There has been a need to carry out extensive validation work on the Stock Condition Survey recently completed to ensure effective targeting of investment in Decent Homes.
8. A number of initiatives are underway to deal with these issues:
- (a) Longer term reprofiling of resources to develop a coherent programme in relation to organisational and industry capacity is currently taking place;
 - (b) The Housing Department is currently developing a procurement strategy to look at getting maximum value for our investment works to include further partnering framework contracts and other contract models offering economies of scale; and
 - (c) New systems are being developed corporately to improve effective project management and procurement. In Housing this process includes introducing standardised project management methodology, better training of project management staff and more robust monitoring of individual projects.

The Major Repairs Allowance and Reserve

9. The Major Repairs Allowance (MRA) represents the estimated long-term average amount of capital spending required to maintain housing stock in its current condition. It is calculated according to the profile of the housing stock by archetype and anticipates a depreciation period of 30 years.
10. The Government has stated: *“Authorities have the flexibility to spend MRA resources outside the financial year in which they are allocated, enabling more efficient planning of works”* [source: *Office of the Deputy Prime Minister – Housing Revenue Account Manual*]
11. The position of the Major Repairs Reserve is summarised below.

Table 2. Major Repairs Reserve

	2001/02 £'000	2002/03 £'000	2003/04 £'000
Balance at 1 April	0	0	-5,205
Major Repairs Allowance	-38,459	-38,468	-38,823
Interest received	0	0	-528
Capital expenditure funded from MRR	38,459	33,263	19,157
Balance as at 31 March	0	-5,205	-25,399

12. The Government also requires that the Major Repairs Reserve is interest-bearing, and £528,400 was credited to it in 2003/04.
13. Again, for the reasons highlighted in paragraph 7 above, this reserve has grown over the last two years.

Financial Prudence

14. The Chartered Institute of Public Finance and Accountancy's (CIPFA) advice on the levels of reserves and balances is quoted below:

"CIPFA does not accept that a case for introducing a statutory minimum level of reserves, even in exceptional circumstances, has been made. Local authorities, on the advice of their finance directors, should make their own judgements on such matters taking into account all the relevant local circumstances." [source: CIPFA Guidance Note on Local Authority Reserves and Balances, paragraph 4.2]

15. However, this is not to say that the area of reserves and balances should be ignored. CIPFA guidance also suggests that reserves be an integral part of the medium-term financial strategy and budget of an authority, and that the following factors be taken account of in assessing the adequacy of the level of reserves and balances authority-wide;
 - The Council's cash flow;
 - The treatment of inflation and interest rates;
 - Estimates of the level and timing of capital receipts;
 - The treatment of demand-led pressures;
 - The treatment of planned efficiency savings/productivity gains;
 - The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments; and
 - The availability of other funds to deal with major contingencies and the adequacy of provisions (**source: CIPFA**)

"Loss of Value"

16. Scrutiny Committee asked for officers to comment on the calculation prepared by one of its members, which suggested a loss to the HRA of £1.4m over two years as a result of maintaining the reserves and balances noted earlier.
17. The loss of value calculation as originally envisaged seeks to identify the opportunity cost of maintaining Housing reserves and balances in total, rather than those sums specifically identified for improvement and maintenance of the council's dwelling stock.

18. The initial calculation within this exercise was on the basis of balances at the end of the financial year – customarily the average balance through the year would be applied. Using the same methodology but adjusting the average balance over the year in order to calculate the interest effect more accurately would reduce the loss. Other HRA reserves and balances are not directly available for such works, and to reallocate them for that purpose runs the risk of not being a prudent approach, and would lay the Council open to potentially severe financial consequences should any unforeseen circumstances occur.
19. The loss of value calculation, if undertaken with the revisions noted above, would identify an opportunity cost over the two financial years of £356,000. In terms of sensitivity analysis, a 1% increase in the buildings cost inflation figure for 2003/04 would increase the loss of value calculation by £242,000. However, this increase in building costs would equate to a loss of over £1m in the value of works carried out in the overall housing investment programme of over £100m. Therefore the argument that this is a loss of value is a question of interpretation.
20. Whilst the Housing Revenue Account is ring-fenced, Housing capital resources are not. The Council takes advantage of this by applying capital receipts (the bulk of which are Housing-generated) across the Capital Programme as a whole. However, as noted above, MRA may only be applied to finance dwellings-based schemes. It is therefore important that the Council maintains adequate levels of Housing Department-based revenue balances to fund other Housing-related expenditure in the future.
21. Interest rates and inflation indices fluctuate from year to year and it is not always the case that interest rates are lower than building cost increases.
22. Best value in the delivery of improving the housing stock requires good planning, management capacity as well as keen pricing.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Office of the Deputy Prime Minister – Housing Revenue Account Manual (Vol.2)	9 Larcom St, SE17 1RX	Shaun Regan x 51232
CIPFA – Guidance Note on Local Authority Reserves and Balances (February 2003)	9 Larcom St, SE17 1RX	Shaun Regan x 51232

Appendix A: Background Information

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CONSULTATION WITH OTHER OFFICERS/DIRECTORATES/EXECUTIVE MEMBER		
Officer title	Comments Sought	Comments Included
Borough Solicitor & Secretary	No	No
Chief Finance Officer	Yes	No
Executive Member	No	No
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