

**WIRRAL COUNCIL****CABINET - 20 JUNE 2007****REPORT OF THE DIRECTOR OF FINANCE****HOUSING REVENUE ACCOUNT: FINAL OUTTURN AND CLOSURE**

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**1. EXECUTIVE SUMMARY**

- 1.1 This report informs Members of the final financial position of the Housing Revenue Account (HRA) following the granting of permission from the Department for Communities and Local Government (DCLG) for its closure. Members are asked to endorse the actions undertaken to close the HRA and the treatment of the balances arising from the closure.

**2. BACKGROUND**

- 2.1 On 7 February 2005 following a ballot of tenants, the Authority undertook a large scale voluntary transfer (LSVT) of the housing stock. The stock was transferred to two newly created Registered Social Landlords (RSLs) Wirral Partnership Homes (WPH) and Beechwood and Ballantyne Community Housing Association (BBCHA). The transfers enabled funding of extensive refurbishment programmes to the housing stock, which under the current funding regime the Authority would have found impossible to match.
- 2.2 At the point of transfer, as expected, there were a number of outstanding financial issues and liabilities relating to activities prior to transfer. Following established practices with previous LSVTs, the DCLG will grant permission to formally close the HRA only once it is satisfied that all significant issues are resolved. The HRA accounts therefore remained open post transfer to account for issues relating to pre-transfer activities.
- 2.3 The LSVT arrangements between the Authority and WPH and BBCHA were laid out in a Transfer Contract also known as the 'Deal in the Round.' This was agreed between the Authority and the two RSLs and approved by the former Office of the Deputy Prime Minister. The Deal in the Round was approved by Cabinet on 13 January 2005 and by Council on 24 January 2005.
- 2.4 At the point of transfer the Authority held significant balances within the Housing Revenue Account Reserve and the Major Repairs Reserve. The Deal in the Round provided for the Authority to use these balances to support the transfer arrangements. This included a loan to WPH of an estimated £3.7 million to pay for the initial set up costs of the new organisation to be repaid from the balances upon closure. It was also agreed that once an allowance was made for any outstanding liabilities left at the point of closure, that the remaining balances in the reserves would be transferred to a joint fund known as the Community Fund. The Community Fund would be operated by Wirral Council and WPH to provide common benefits to the area. The balance anticipated to be transferred after any loan repayment was £2.8 million.

2.5 The DCLG granted permission for the Authority to close its HRA on 27 March 2007 (See appendix 1). In accordance with accounting regulations these balances are to be transferred to the Authority General Fund before being utilised.

### 3. POST TRANSFER ISSUES

3.1 A number of issues have been dealt with during the post transfer period. These include:

- **Housing Subsidies and Grants:** The DCLG only confirmed the final agreed position on pre-transfer year housing subsidy claims in March 2007. This involved the resolution of a number of issues regarding benefit payments and system reconciliations. Due to work undertaken by officers post transfer, the Authority received a further £500,000 of subsidy relating to pre-transfer years. This has increased the balance on the HRA. In addition the DCLG has also paid the HRA £250,000 of subsidy relating to the post transfer period. This latter amount was unexpected given the Authority has no housing stock. Discussions are continuing with the DCLG and there is a need to be prudent about the possibility of any future clawback for this.
- **Contracts: Outstanding amounts and retentions.** Progress has been made in clearing outstanding debts and some charges have been made to the HRA in 2005/06 and 2006/07 for these. There are outstanding liabilities for which provision will have to be made.
- **Inter organisational debtors and creditors:** A number of issues regarding payments between the Authority and WPH and BBCHA have been resolved. These include the transfer of pre-paid rent balances, the payment for equipment leases running past the transfer date and various works undertaken by one organisation for another.
- **Central Heating Contracts.** Significant central heating programme works had not been completed and paid for at the point of transfer. The costs were paid originally post transfer through the accounts of the Authority. Following discussions and advice with/from HM Revenue and Customs VAT inspector to allow for the recovery of VAT to occur, the contract costs have been passed onto WPH. This is despite the costs arising from a decision of this Authority. The result is an increase in the amount to be transferred to the Community Fund and a corresponding liability upon the Fund to allow for the recovery of the VAT incurred.
- **Outstanding Repair Costs.** Protracted negotiations have been on going since transfer with the Estate Management Board (EMB) over an outstanding dispute for works amounting to several hundred thousand pounds undertaken pre-transfer and money in turn owed by the Authority to the Board. Resolution of this dispute is expected imminently. In order to settle the issue, minimise loss of interest and potential significant legal costs it is likely that this will require a small reduction to the income originally anticipated to be charged to the HRA. The accounts have been closed on this basis.

- **Service Charge Accounts:** The Authority arranged for the billing or reimbursement of the balance on service charges accounts for several hundred former tenants. These were in relation to service charges for 2004-05 and were finalised during 2005-06.

3.2 A number of issues still remain for which provision must be made. With the closure of the HRA this provision will be held within the General Fund. In order to ensure that no costs fall upon the Council Taxpayer the provision needs to be large enough to cover any known and unknown liabilities that may arise. Areas for which this provision may be required include the following:

- **Contracts: Outstanding amounts and retentions.** There are still a number of outstanding contract payments/retentions that have not been claimed. In addition, some staffing costs may be charged from the Director of Technical Services in managing and resolving these issues. The settlement position with the EMB outlined above assumes an estimated future receipt of income. Failure to achieve the estimated receipt would impact on the provision.
- **Insurance claims.** The Authority is liable for certain types of insurance claims for periods prior to the stock transfer, which are not covered within the warranty provisions within the Community Fund. The nature of such claims makes it difficult to predict costs whilst the period for claims could stretch into the future. Again provision should be made.
- **Housing Subsidy.** As stated above, the HRA balances include £250,000 of subsidy received relating to the post transfer period when the Authority had no housing stock. Caution is required in the case of any subsequent claw back of subsidy and discussions with the DCLG continue on this matter.
- **Costs incurred in closure of the HRA.** The Authority in managing the closure and post transfer activities of the HRA has incurred significant costs. These costs include general management, audit, accounting services and legal activities. These costs have not been charged to the HRA. On finalisation of the audit of the accounts these costs will need to be charged against the provision.
- **Other liabilities.** An amount is also required to cover any unforeseen costs that may arise and would not be chargeable to the Community Fund. Such costs would fall upon the Authority General Fund and therefore provision is required. These may include items identified during the seven year refurbishment programme being undertaken by the two RSLs and any items of expenditure omitted from the accounts or any income included within the HRA in error.

3.3 At the close of accounts 31 March 2006 in anticipation of the official closure letter a provision of £1.5 million was set aside for the on-going liabilities detailed above. Given the issues listed above on closing the HRA I have assessed the position and maintained the provision at this existing level.

## 4 HRA FINAL POSITION AND TREATMENT OF BALANCES

- 4.1 Housing Revenue Account: Any revenue and capital expenditure incurred during the year is recharged to the Housing Revenue Account balance or to the Major Repairs Reserve respectively. The opening balances, movements and closing balances of these accounts are shown below:

### HRA Final Position

Reserves	Housing Revenue Account Reserve £	Major Repairs Reserve £	Total £
Opening Balance	4,011,637 CR	4,552,987 CR	8,564,624 CR
Movement 2006-07	128,955 CR	77,824 CR	206,779 CR
<b>Closing Balance</b>	<b>4,140,592 CR</b>	<b>4,630,811 CR</b>	<b>8,771,403 CR</b>
Transfer to General Fund	4,140,592 DR	4,630,811 DR	8,771,403 DR
Final HRA/MRR Balance	0	0	0

- 4.2 In relation to 2006/07, there was a credit movement in 2006/07 for both the HRA reserve and Major Repairs Reserve. For the HRA reserve this was mainly due to the receipt of Housing Subsidy payments received relating to 2005/06 and 2006/07 and offset by some liabilities charged during 2006/07. In terms of the MRR the credit balance is a result of some works in previous years accounts being recharged to WPH during 2006/07.

- 4.3 Treatment of Balances: In accordance with accounting regulations the closing balances on the HRA have been transferred to the Authority General Fund. This will then be utilised as per the stock transfer agreement to firstly pay off the set up costs loan with the remaining balances being transferred to the Community Fund. The balance shown below is after making the provision for future liabilities outlined in paragraph 3.3.

	£
Balance transferred to General Fund	8,771,403
Less WPH Loan Settlement	3,693,325
Amount to be transferred to the Community Fund	5,078,078

- 4.4 Community Fund: The amount to be transferred to the Community Fund is higher than forecast prior to the transfer. Part of the reason for this is the significant central heating works not completed until post transfer and the requirement in order to achieve VAT recovery to pass these costs on to WPH. As such costs are a result of a Council decision and so as not to adversely impact on either party's financial position it is intended that the equivalent funding will be drawn down from the Community Fund be used to finance these costs.

	£
Anticipated balance to be transferred	2,800,000
Adjustment for additional amount due to Central Heating Works not completed by authority	1,293,934
Further Community Fund transfer above original estimate	984,144
Amount to be transferred to the Community Fund	5,078,078

- 4.5 The position after adjusting for central heating works is £984,144 above the original estimate of the amount to be transferred. This is partly due to the receipt of additional unanticipated subsidy and other capital works not completed at the time of transfer.

## **5. FINANCIAL AND STAFFING IMPLICATIONS**

- 5.1 The financial implications of this report are outlined above. In summary the Housing Revenue Account has been closed in accordance with the approval granted by the DCLG on 27 March 2007. As per the stock transfer agreement, a provision has been set aside to provide against any possible future liabilities and this has been assessed as £1.5 million. The remaining £8.8 million will be used to pay the WPH loan for set up costs loan of £3.7 million with the remaining £5.1 million being transferred to the Community Fund. Of this, an amount of £1.3 million is committed to fund the central heating costs being borne by WPH to aid the recovery of VAT.

- 5.2 There are no staffing implications arising from this report.

## **6. EQUAL OPPORTUNITIES IMPLICATIONS**

- 6.1 There are none arising directly from this report.

## **7. HUMAN RIGHTS IMPLICATIONS**

- 7.1 There are none arising directly from this report.

## **8. COMMUNITY SAFETY IMPLICATIONS**

- 8.1 There are no specific implications arising from this report.

## **9. LOCAL MEMBERS SUPPORT IMPLICATIONS**

- 9.1 There are no specific implications for any Member or Ward.

## **10. LOCAL AGENDA 21 IMPLICATIONS**

- 10.1 There are none arising directly from this report.

## **11. PLANNING IMPLICATIONS**

- 11.1 There are none arising from this report.

## **12. BACKGROUND PAPERS**

- 12.1 Stock transfer report to Cabinet 13 January 2005 DCLG Closure of HRA Letter 27 March 2007 and Statement of Accounts 2006/07.

### **13. RECOMMENDATION**

13.1 That the following actions be endorsed:

- a) the closure of the Housing Revenue Account and actions outlined above taken to achieve closure including the transfer of balances to the General Fund
- b) the set aside of £1.5 million in a reserve for any possible future liabilities
- c) the repayment of the loan to WPH for set up costs totaling £3,693,325
- d) the transfer of balances from the General Fund to the Community Fund as per the terms of the stock transfer agreement
- e) the use of the increase in the amount transferred to the Community Fund arising from unpaid central heating works to fund the equivalent liability passed to WPH by the Authority to allow for the recovery of VAT to occur.

IAN COLEMAN  
DIRECTOR OF FINANCE

FNCE/167/07



## Appendix 1

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27 March 2007

Mr Tom Sault  
Chief Accountant  
Metropolitan Borough of Wirral  
Treasury Building  
Cleveland Street  
Birkenhead  
Wirral  
Merseyside  
CH41 6BU

Our Ref:  
Your Ref:

Dear Mr Sault,

### **CLOSURE OF HOUSING REVENUE ACCOUNT**

I am writing further to my letter of 21 March 2007 and your email reply of 23 March 2007.

I now attach the Secretary of State's consent for your authority to close its Housing Revenue Account (HRA) with effect from 27 March 2007.

I should remind you that this consent will cease to be effective on the first date on which your authority possesses property to which section 74 (1) of the Local Government and Housing Act 1989 applies.

I am copying this letter to the Audit Commission.

Yours sincerely,

**Ross Buchanan**

## **CONSENT TO CLOSE HOUSING REVENUE ACCOUNT**

- 1. The Secretary of State, in exercise of her powers under section 74(4) of the Local Government and Housing Act 1989 ("the 1989 Act"), hereby consents to Wirral Metropolitan Borough Council ("the Council"), not keeping a Housing Revenue Account from 27 March 2007 and for subsequent years from this point, subject to the condition specified in paragraph 2 below.**
- 2. If at any time after the date of this direction, the Council once again possesses property to which section 74(1) of the 1989 Act applies, the Council shall keep a Housing Revenue Account as required by that section, and shall immediately notify the Secretary of State that the Council is once again keeping a Housing Revenue Account.**

**Ross Buchanan**

Department for Communities and Local Government  
for and on behalf of the Secretary of State

27 March 2007