

**Report to:** Cabinet  
Joint Cabinet with Overview and Scrutiny Committee  
Council

**Date:** 21 February 2008  
25 February 2008  
5 March 2008

**Subject:** Housing Revenue Account (HRA) Capital and Revenue  
Estimates 2008/09

**Report of:** Director of Finance & I.T., Director of Environmental  
Services, Chief Executive of Wigan & Leigh Housing.

**Contact officer:** Mark Rotheram 2257

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**Purpose / summary:** To recommend a proposal for HRA Capital and Revenue estimates for 2008/09.

**Alternative options considered and reason for selecting the one recommended:** Alternative options considered covered a range of possible levels of expenditure on management and maintenance and of year end balances. The option proposed was preferred as the most appropriate in the light of the subsidy determination, the medium term prospects for the HRA and the need to deliver the agreed vision for the service.

**Recommendation / decision:** Cabinet is asked to recommend to Council :  
  
The approval of the HRA Revenue estimates for 2008/09.  
The approval of the HRA Capital estimates for 2008/09.

**Key Decision:** This report does not involve a key decision.

**Risks / Implications:**

Financial:	Set out within the report
Staffing:	None for council
Policy:	HRA Business Plan
Equal Opportunities - Has a Diversity Impact Assessment been conducted?	No specific implications
Wards affected:	All

**Property Implications– Does the proposal involve a reduction, addition or change to the Council’s asset base or its occupation?**

No

**If yes have the property implications been agreed with the Corporate Property officer?**

**Does this proposal have significant implications for the Council and the local population?**

A diversity impact assessment is not necessary at this stage, however, equality and diversity implications have been considered when producing this report.

**Does this proposal involve a new policy or procedure or significant changes to an existing policy or procedure?**

A diversity impact assessment is not necessary at this stage, however, equality and diversity implications have been considered when producing this report.

Has the Director of Legal and Property Services confirmed that the recommendations within this report are lawful and comply with the Council’s Constitution? **Yes**

Has the Director of Finance and IT confirmed that any expenditure referred to within this report is consistent with the Council’s budget? **Yes**

Are any of the recommendations within this report contrary to the Policy Framework of the Council? **No**

\* delete which applicable

**For Cabinet reports only :**

Categorisation of the report:	<b>X</b>
Discussion leading to a decision	<b>X</b>
Monitoring	
Sharing for corporate understanding	

	<b>X</b>
Discussion	
Decision	
Information	

**Tracking/Process:**

	Consultation	Ward Members	Partners
	Tenants’ representatives various dates in February		WALH Board 13.02.08
Panel	Overview & Scrutiny	Cabinet	Council
	25.02.08	07.02.08; 21.02.08	05.03.08

There are no Background Papers to this Report within the meaning of Section 100D of the Local Government Act 1972.

Proper Officer David Smith

## 1. Background :

1.1 This report introduces the second phase of the process for agreeing the HRA estimates for 2008/09. The first phase – rent setting – was completed at Council on the 9<sup>th</sup> January 2008. This second phase gives more detailed consideration to HRA income and expenditure in respect of both revenue and capital. The material in the report has been used as the basis for consulting tenants' representatives and the Wigan and Leigh Housing Board, and their comments will be reported verbally at that meeting.

## 2. Context

This section of the report will consider the Council's vision and its impact on housing, the resources likely to be available to provide that service in the short and medium term, and the pressures on the budget.

### 2.1 The vision

The Council's vision of building the future together is reflected in the refreshed Wigan and Leigh Housing Co Ltd vision of Better Homes, Brighter Future which has 5 goals :

- Better Housing services
- Decent homes
- Better Estates
- Access to affordable housing
- Housing services for the vulnerable

These goals have been used to pattern and challenge the proposed distribution of resources amongst HRA services.

### 2.2 Available resources

2.2.1 The additional ALMO capital resources have now all been drawn down and the available resources are once again limited to those arising from the HRA subsidy system and from rental income, coupled with limited contributions from external sources for non housing management services – for example, homelessness work and support to vulnerable clients.

2.2.2 There is a continuing impact of **reducing stock numbers** on the income available to the HRA. Both rental income and subsidy income are directly dependent on stock numbers. Increasing house prices and higher interest rates have had a considerable impact on Right to Buy numbers, reducing sales to a level of around 1% of stock per year. In comparison the level of sales in 2004/05 was over 3%.

2.2.3 Rent loss as a result of empty properties has continued to decrease. In 2006/07 this was 1.45% and for the first three quarters of 2007/08, has reduced to 1.20%. This is because the average time to re-let properties has continued to reduce and, excluding properties subject to major works, the average time is now down to 34 days from 51 days.

When those properties that require major works are included, the average is 48 days which is a reduction of 1 day from last year.

As indicated in para 2.3.1 below, turn-over rate is still a cause of problems in relation to the repairs budget but it is to be welcomed that this has levelled out and at 8.6% is at a level that is comparable with last year. Expenditure on voids to the end of December was £4.1 million which represents 35% of the total repairs spend for the period.

#### 2.2.4 Arrears

Current arrears at the present time are £1.37 million being £30,000 less than at the same time last year.

Former tenant arrears are now £2.74 million. New debt arising in 2007-08 minus debt recovered plus an increased level of write-off has kept this amount at a similar level to the 2006/07 year-end position. Older debt has been outsourced but the level of recovery is relatively low because of the age of the debt. Internal procedures for recovering new debt have been reviewed and referrals to the debt recovery agency are now made sooner, which may increase the level of collection.

In the light of these trends the write-off provision for 2008/09 has been recalculated as £250,000, a reduction of £80,000 on the projected figure for the current year.

- 2.2.5 The details of the draft and a revised draft **subsidy** determination have been reported to Members in the rent setting reports to cabinet and council on the 13<sup>th</sup> December 2007 and 9<sup>th</sup> January 2008. The final determination for 2008/09 was received on 15 January 2008 and other than a 1p reduction in the Maintenance Allowance per property, it was very much the same as the revised draft Subsidy. Clarity has been provided in relation to the removal of the **Rental Constraint Allowance** which provided this authority with £1.7m worth of subsidy in 2007/08 and £0.6m in 2006/07. There will be a return to the system of caps and limits that means authorities who lose income because of this protection will be compensated through adjustments made in the following year. Further information on the exact working of this is to be provided at future date. The settlement continues the trend of being much less favourable than those of recent years which had represented a realignment of management and maintenance allowances in favour of northern authorities. A review of the Housing Revenue Account Subsidy System is to be undertaken by DCLG and the Treasury but until this is finalised it would appear that subsidy reductions will continue and Wigan Council could go into **Negative Subsidy** in 2009/10.

### 2.3 Budgetary Pressures and Inflation Assumptions

- 2.3.1 As reported previously in the quarterly revenue monitoring reports, we are experiencing pressure on the revenue repairs budget due to high tenant turnover. There is a subsequent need to spend on preparing properties for re-letting.
- A variation to existing day to day repairs and gas servicing contracts for Council properties is also proposed and is reported elsewhere on this agenda. This sets out a significant change to the accounting procedures to the Term

Partnering Contract and if approved could identify significant benefits for the Council.

- 2.3.2 A report was prepared in October 2005 by a working party of senior officers from the Council and Wigan and Leigh Housing and it identified a range of items where the General Fund was not fully reimbursing the HRA. It was agreed in the 2005/06 estimates process that the Council would attempt to rectify this imbalance progressively by the sum of £50,000 each year. Such an increase in HRA resources was agreed for 2005/06, 2006/07 and 2007/08 and consideration of an additional increase in 2008/09 is contained within the General Fund Revenue report elsewhere on this agenda.

### 3. Value for Money

In the context of the tight financial constraints on the HRA outlined in the preceding section the key feature of the approach to preparing these estimates has been the pursuit of Value for Money in both Supervision and Management and Works expenditure. Successive Tenant Satisfaction Surveys have shown an increasing number of respondents who indicate that the rent charged represents value for money. Tenant satisfaction is extremely high – within the top quartile of the Comprehensive Performance Assessment. It will take continual effort to maintain that positive opinion in the context of diminishing resources.

#### 3.1 Supervision and Management

- 3.1.1 In assessing the need for changes to Wigan and Leigh Housing's management fee the Council's standard budgetary assumptions have been made in respect of **pay increase** (2%); salary increments, and inflation for goods and services; and the additional contribution of 1% on salaries required for **superannuation**.
- 3.1.2 No additional provision has been assumed in respect of the impact of implementation of the outcome of the **job evaluation** process within Wigan and Leigh Housing, and no provision made for equal pay claims within that organisation.
- 3.1.3 The right-sizing of **staff resources** has taken into consideration a number of factors. These include the near completion of the Decent Homes programme; the reduction from 17 to 5 Area Offices; and the realignment of staff to facilitate the realisation of the revised Wigan and Leigh Housing Company vision themes. Further, strong staff budget management and vastly improved sickness absence management have minimised the year on year increase in staff costs.
- 3.1.4 The review of **office accommodation** is substantially complete improving accessibility for tenants and other customers. The revamped and re-branded property shops now offer a range of housing solutions to meet the varying requirements of the people of the borough. These changes have seen better service provision and a reduction in overall office costs.
- 3.1.5 The proposed level of **Supervision and Management** (net of contributions from service charges and other external funding sources) is £14.05 million,

an increase of 0.31% on the base estimate for 2007/08, this comfortably meets the aspiration outlined in the budget briefing presented to Cabinet in November 2007 to contain the increase within 2%.

3.1.6 The proposed level of **WALH Management Fee** envisages no growth from the 2007/08 estimate of £15.332 million. The strong staff budget management referred to at paragraph 3.1.3 above, coupled with effective economy in the purchase of goods and services, should allow adequate resources to provide for the pay increase and increments for existing staff without the need to increase the fee. It must be noted that Wigan and Leigh Housing have been able to achieve this whilst absorbing additional superannuation costs of £0.089m and salary increment commitments of £0.045m. These additional commitments have been offset to some extent by a reduction of £0.050m in central support charges from the Council.

### 3.2 Continued Drive for Value for Money

3.2.1 Wigan and Leigh Housing Company pursuing **Better Housing Services**, is striving to provide its customers with consistently high levels of customer care and service, whilst still delivering value for money and is working with the council in trying to shape national policy to secure a more stable financial regime.

3.2.2 The **Decent Homes** target will be achieved; the desire for more **affordable house building** will be addressed; and major work on sheltered housing, homelessness and “housing options” will be undertaken. Work around **“Better Neighbourhoods”** will attempt to address **deprivation, quality of life and community engagement and cohesion**.

3.2.3 Several supporting strands of work are being undertaken that will support and strength the frontline delivery of services, addressing issues highlighted above and at the same time ensuring that the company is operating as efficiently as possible. These will include a focus on **Customers** covering access, engagement and customer care; on **Working Smarter** review focusing on its processes and the use of ICT; and on future **Resources**.

3.2.4 At the time rents were set in early January it was not clear what position would be taken by the **Supporting People** Commissioning Body on inflation increases for the contribution to the various Supporting People Services provided by Wigan and Leigh Housing. It has now been indicated that for services like Housing Link and the homeless hostel an increase of 2.1% has been agreed. However, for the fifth year in succession, no increase is to be awarded in respect of the Sheltered Housing service. A **fundamental review of the sheltered housing service** continues aiming for improved Value for Money in delivery of the rather than increasing charges to tenants.

### 3.3 Maintenance and Improvement Works

3.3.1 Negotiation with the main partner contractors carrying out both the Programmed Work and Responsive repairs partner contracts has produced agreement on the inflation increase for 2008/09. The eight external partnering contractors have agreed to 0% inflation on their contracts.

- 3.3.2 In the case of the ALMO Improvement Programmed work the inflation negotiations with our partner contractors are projected to give an estimated annual saving of over £0.5m in 2008/09. The cumulative effect on the Council's Gershon efficiency returns of the below inflation agreements over the last 4 years will be £12.3m. These fruitful negotiations have meant that we have been able to stretch our limited resources further and ensure a greater volume of work is undertaken on tenants' homes.
- 3.3.3 Further value for money in our management of the repairs works is being achieved by organising more work on a programmed rather than a reactive basis. The increase in the expenditure on Revenue Programmed works by £1.6m to £4.7m as illustrated in the Medium Term Financial Plan demonstrates that we are devoting more resources to working in this way. While the vast majority of capital work has always been carried out on a planned basis, over the past couple of years we have been increasing the proportion of revenue work that is carried out in this more efficient way. This is achieved by working closely with our contractor partners and identifying Invest to Save type opportunities funded by revenue resources which had previously been used as a contribution to capital expenditure.

### 3.4 The Revenue Estimate

- 3.4.1 Appendix 1 sets out the proposed draft estimate based on the assumptions set out in this report. It makes provision for a prudent level of balances in the light of the issues raised earlier in the report.

Net expenditure on Supervision and Management has only increased by £0.043m (0.31%) between 2007/08 and 2008/09 mainly due to zero growth in the WALH Management Fee as per paragraphs 3.1.5 and 3.1.6.

Significant contributions continue to be made from the housing revenue account to support capital expenditure. These are at a level of £8.9m in 2008/09. In 2007/08 the amount of housing revenue account support for the capital programme takes account of the HRA share of the sale of Prescott Street.

On 9<sup>th</sup> January 2008 Council approved an extension of the policy to suspend the voluntary repayment of HRA debt for a further two years (2008/09 and 2009/10). In 2008/09 this allows additional resources of approximately £4.4m to be invested into stock improvement works.

The rent loss on dwellings is projected to reduce by 19% (£0.186m) in 2008/09 compared with 2007/08 as per paragraph 2.2.3.

Rent increases of 4.8% for dwellings and garages together with service charge increases of 4.4% have been incorporated to give additional resources in 2008/09.

The final 2008/09 HRA Subsidy Determination has been issued and incorporated into the estimates. There has been a reduction in subsidy from the base estimate in 2007/08 of £4.7 million to just £0.7m in 2008/09. The details of this have been considered in greater detail in paragraph 2.2.5.

The working balance for the HRA as at 31<sup>st</sup> March 2009 is forecast to be £4.6m.

#### **4. Medium Term Financial Plan**

4.1 The Medium Term Financial Plan has been revised and rolled forward to reflect the context and pressures set out earlier in the report. It is included as Appendix 2 to this report. Since the approval of the rent setting report by Council in January 2008, confirmation has been received by DEFRA releasing £2.3m of funding to support phases 7,8 and 9 of the contaminated land remediation project at Ince. This has enabled additional priority programmed work to be brought forward. A strong health warning must be attached to this forecast after 2008 since the Government review of Social Housing funding may significantly alter the income side of the equation. In the absence of any better information existing trends are assumed to continue.

#### 4.2 Capital resources

4.2.1 The Medium Term Plan demonstrates how revenue and capital issues are inextricably linked within the overall HRA system. Within a level of total income that is effectively already determined the key expenditure decisions relate to the balance between works and services.

4.2.2 There are, however, some decisions on capital resources available to the HRA where it is requested that the continuation of previous practice be confirmed:

- The use of capital receipts from disposal of cleared sites to fund any demolition costs – currently a minimal level of activity;
- The use of £250k of capital allowance to fund regeneration work such as conversions to bring properties back into use or assist with those aspects of the contaminated land remediation project at Ince which are ineligible for DEFRA funding.

#### **5. Programmes**

5.1 The current level of non-decency is 10.9% and is forecast to be 10% at year end. However, 4% is accounted for by tenants declining works on grounds of age and infirmity (e.g. kitchens) or preference (e.g. retaining solid fuel heating despite the option to switch), leaving 6% where the Improvements Programme has not yet reached the property.

The remaining elements of the ALMO Improvement Programme are the fencing and parking programme and the external structural and roofing works programmes. Together these will account for £8.5 million of the HRA capital resources in 2008/09.

The recent inclusion of external structural and insulation works to the multi-storey flats within the Decency programme at an estimated cost £10.5m of capital resources over the next two years and the delay to the external works to the Ince Central estate until completion of the contamination remediation works, will result in the programme being finalised in 2009/10.

Wigan and Leigh Housing Stock Investment Task Group met recently to make recommendations for the use of the minor programme resources, both revenue and capital, that are likely to be available in addition to the

main ALMO Improvement Programme. They prioritised the following works:

- The continued “mop-up” programme of kitchens originally omitted from the programme, tackling those where the tenant declined on grounds of ill health but has since recovered and requested the work.
- A number of health and safety works such as gas and solid fuel heating servicing, 10 year electrical testing and inspections, upgrading immersion heaters to electrically heated properties, repairs to walkways to avoid tripping hazards, lift maintenance, renewal of the oldest street lighting columns on estate land, management of Japanese Knotweed etc
- Asbestos and legionella surveys and works,
- The proposed introduction of Energy Performance Certificates to void and Right To Buy properties.
- Electrical rewires to properties that have not been rewired in 30 years.
- Replacing electrical storage heaters with gas were practicable.
- Works to sheltered schemes including renewal of ageing warden call systems; rewiring and internal decoration to communal areas; fire safety; and DDA works
- External decency and insulation works to the multi-storey flats in Scholes
- The continued conversion of the remaining landlord-maintained TV aerial systems to receive digital signals before the 2009 deadline. These are mainly located in the multi-storey blocks and the sheltered schemes and those property types will be converted first.
- Limited provision of additional furnished properties for vulnerable clients.
- Contribution to the costs of remediation project at Ince which are not eligible for DEFRA support, primarily “like for like” re-instatement of gardens, disturbance allowances and the intensive project management and resident liaison necessary when carrying out such disruptive work with residents in situ.
- A pilot scheme to a small number of properties to trial an annual ‘MOT’ to proactively undertake very minor repairs and replacements just in time to ensure properties are kept in reasonable condition and also to help smooth out the workload of the rapid response teams

## **6. Conclusions and Recommendations :**

### **Revenue Estimates**

Cabinet is requested to recommend that Council :-

- 6.1 Approve the HRA Revenue estimates for 2008/09
- 6.2 Approve the ALMO Management fee for 2008/09 as £15,332,418

### **Capital Estimates**

Cabinet is requested to recommend that Council :-

- 6.3 Approve the HRA Capital Estimates as set out in the report.
- 6.4 Confirms the use of £250,000 of capital allowance to fund regeneration work such as conversions to bring properties back into use or assist with those

aspects of the contaminated land remediation project at Ince which are ineligible for DEFRA funding.

- 6.5 Confirms the use of capital receipts from disposal of cleared sites to fund any demolition costs.

Cabinet is requested to :-

- 6.6 Grant Budget Release for the 2008/09 HRA Capital Programme.
- 6.7 Appoint Wigan and Leigh Housing to manage the HRA Capital programme and the Ince contamination remediation programme.
- 6.8 Delegate to Wigan and Leigh Housing the power to manage the timing of the elements of the programme to match the available resources.
- 6.9 Delegate to Wigan and Leigh Housing the choice of minor programmes in the light of resources available when the 2007/08 out-turn is known.

## Appendix 1 - SUMMARY HOUSING REVENUE ACCOUNT

	Estimate 2007/08 £	Projected Out- turn 2007/08 £	Estimate 2008/09 £
<b><u>EXPENDITURE</u></b>			
Net S&M and Repairs Administration expenditure	14,001,221	13,301,221	14,044,259
Rents, Rates, Taxes & Miscellaneous Costs	43,297	43,297	44,379
Housing Programmed Repairs (net of capitalisation)	2,600,000	3,100,000	4,700,000
Housing Responsive Repairs (net of capitalisation)	12,582,090	11,966,707	12,140,262
Building DLO surplus	-110,500	-165,000	-140,262
Capital Charges - Depreciation: dwellings	13,653,438	13,653,438	13,654,429
Capital Charges - Depreciation: other property/land etc	124,434	124,434	128,562
Capital Charges - Debt Management Costs	42,051	43,893	45,079
Capital Charges: Loan Charge Interest	15,122,839	15,558,028	15,536,269
Capital Charges: Housing Set Aside	0	0	0
Revenue Contributions to Capital Exp.	9,210,000	8,200,000	8,900,000
Contribution to Bad Debts Provision	330,000	330,000	250,000
Rent Loss on Empty Dwellings	990,476	790,889	804,181
<b>Total Expenditure</b>	<b>68,589,346</b>	<b>66,946,907</b>	<b>70,107,158</b>
<b><u>INCOME</u></b>			
Rents: Dwellings	64,255,807	64,287,025	65,380,551
Rents: Other	657,244	625,244	635,795
Housing Subsidy	4,672,975	4,890,566	719,659
Contributions: Housing Defects Grant	16,609	16,609	0
Interest Receivable: Cash Balances	105,000	280,807	186,597
Interest Receivable: Mortgages	6,384	4,469	3,279
Capital Charges: Depreciation (non dwellings)	124,434	124,434	128,562
<b>Total Income</b>	<b>69,838,453</b>	<b>70,229,154</b>	<b>67,054,443</b>
<b>Deficit / Surplus (-)</b>	<b>-1,249,107</b>	<b>-3,282,247</b>	<b>3,052,715</b>
<b>Balance Brought Forward 1st April</b>	<b>-3,410,620</b>	<b>-4,336,696</b>	<b>-7,618,943</b>
<b>Balance Carried Forward 31st March</b>	<b>-4,659,727</b>	<b>-7,618,943</b>	<b>-4,566,228</b>
<b><u>MAJOR REPAIRS RESERVE (MRR)</u></b>			
Balance Brought Forward 1st April	-2,174,424	-2,604,394	0
MRA - Allowance received/receivable	-13,653,438	-13,653,438	-13,654,429
Contributions to Capital Expenditure	15,827,862	16,257,832	13,654,429
Balance Carried Forward 31st March	0	0	0

**TOTAL BALANCES-IN-HAND at 31st March (HRA and MRR)**

**-4,659,727**

**-7,618,943**

**-4,566,228**

**Appendix 2 – Medium Term Financial Plan HRA Forecast 2006 to 2011**

	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
Stock at beginning of year	23,396	23,093	22,878	22,663	22,448
<b>Revenue</b>	£ m	£ m	£ m	£ m	£ m
<b>Income</b>					
Rents: Dwellings	60.7	64.3	65.4	68.0	70.7
Rents: Garages, shops & land	0.6	0.6	0.6	0.6	0.6
Void and bad debts	-1.5	-1.1	-1.0	-1.2	-1.2
Subsidy	6.7	4.9	0.7	0.0	-1.0
Misc income					
<b>Total Income</b>	66.5	68.7	65.7	67.4	69.1
<b>Expenditure</b>					
Net Supervision and management	12.8	13.3	14.1	14.3	14.6
Responsive repairs	11.9	11.8	12.0	12.5	12.5
Revenue programmes	3.2	3.1	4.7	4.5	5.0
Debt charges	15.4	15.6	15.6	15.6	15.6
Debt repayment					4.4
Major Repairs	13.7	13.7	13.6	13.9	13.7
<b>Total Expenditure</b>	57.0	57.5	60.0	60.8	65.8
<b>Net surplus</b>	9.5	11.2	5.7	6.6	3.3
<b>Balance at beginning of year</b>	10.8	4.3	7.6	4.6	3.7
Interest on general balances	0.5	0.3	0.2	0.2	0.2
Revenue contribution to capital	16.5	8.2	8.9	7.7	
<b>Balance at end of year</b>	4.3	7.6	4.6	3.7	7.2
<b>Major Repairs Reserve</b>					
Brought Forward	2.1	2.6	0.0	0.0	0.0
In	13.7	13.7	13.6	13.9	13.7
Used	13.2	16.3	13.6	13.9	13.5
Carry Forward	2.6	0.0	0.0	0.0	0.2
<b>Capital</b>					
<b>Capital Expenditure</b>					
5 Yr ALMO Improvement Programme	24.3	18.2	6.0	2.5	2.5
Ince (removed from minor works)			2.1	1.7	
Capitalised repairs	4.9	4.8	4.5	4.0	4.0
Capitalised salaries	1.0	1.0	1.0	0.7	0.7
Minor programmes/ unallocated	1.0	2.2	4.8	7.8	6.8
High Rise Flats			5.0	5.5	
Demolition	0.3	0.1	0.1	0.1	0.1
<b>Total Capital Expenditure</b>	31.5	26.3	23.5	22.3	14.1
funded by					
Borrowing					
Major Repairs Reserve	13.2	16.3	13.6	13.9	13.5
Revenue contribution to capital	16.5	8.2	8.9	7.7	0.0
Reimbursed improvements	1.2	0.9	0.6	0.3	0.2
Capital receipts	0.3	0.6	0.1	0.1	0.1
Capital allowance	0.3	0.3	0.3	0.3	0.3
British Gas etc					
<b>Total Capital Resources</b>	31.5	26.3	23.5	22.3	14.1

