

**Report to:** CABINET

**Date:** 27th NOVEMBER 2008

**Subject:** Housing Revenue Account (HRA) Budget Briefing – Subsidy Determination 2009/10.

**Report of:** Executive Director of Business Support Services,  
Director of Environmental Services, Chief Executive of Wigan & Leigh Housing.

**Contact officer:** Mark Rotheram Ext 2257

---

**Purpose / summary:** To report on the implications of the Draft HRA Subsidy determination 2009/10 and seek Cabinet's views on the preparation of the HRA estimates for 2009/10.

**Alternative options considered and reason for selecting the one recommended:** Options are to follow, or not, Government guidance on setting rents.

**Recommendation / decision:** To confirm that other rental increase options be considered in addition to the option to comply with rent restructuring guidance.

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

**Risks / Implications:**

Financial:	To be set out in the Revenue Estimates report in February 2009.
Staffing:	None for the Council
Policy:	HRA Business Plan
Equal Opportunities - Has a Diversity Impact Assessment been conducted?	A diversity impact assessment is not necessary at this stage, however, equality and diversity implications have been considered when producing this report.
Wards affected:	All

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

No

**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 Service Director - Borough Solicitor confirmed that the recommendations within this report are lawful and comply with the Council's Constitution? **Yes**

Has the Service Director - Corporate Services 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
Panel	Overview & Scrutiny	Cabinet	Council
		27 November 2008	

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

Proper Officer D J SMITH

Date 13 November 2008

## **1. Background**

The report gives initial comments on the HRA 2009/10 revenue budgeting process, including the setting of rents for Council housing next year, and seeks guidance on further preparation work. The timetable for preparation and approval of the HRA estimates is set out in the Table below.

The timetable covers the aspects of rent-setting and of determining the detail of the HRA budget as a twin-track approach. Because of the need to give tenants adequate notice of the rent rise the new rent levels need to be determined at the January Council meeting. More detailed consideration of the HRA income and expenditure can then take place alongside the General Fund budget timetable.

29 <sup>th</sup> October 2008	Draft HRA subsidy determination posted on website.
27 <sup>th</sup> November 2008	Cabinet consider implication for rents of the subsidy determination and receive HRA budget briefing
11 <sup>th</sup> December 2008	Joint meeting of Overview and Scrutiny Committee and Cabinet to consider rent rise
7 <sup>th</sup> January 2009	Council determines rent rise
19 <sup>th</sup> February 2009	Cabinet propose Council Tax and Budget
23 <sup>rd</sup> February 2009	Joint meeting of Overview and Scrutiny Committee and Cabinet to consider detailed HRA budget
4 <sup>th</sup> March 2009	Special Budget Council including HRA budget

## **2. Subsidy Determination**

The Draft HRA Subsidy Determination 2009/10 was posted on the Communities and Local Government (CLG) Department's website on the 29<sup>th</sup> October. The deadline for comments is the 9<sup>th</sup> December and the final determination is expected some days after that.

## **3. Amendments to Allowances**

The draft determination provides increases of 5.83% (5.72% in 2008/09) for Management Allowance per dwelling and 4.52% (2.78% in 2008/09) for Maintenance Allowance per dwelling. This has been offset by an increase of 4.36% (6.56% in 2008/09) on the notional rent per dwelling.

The change in subsidy receivable is the net effect of increases in notional expenditure and notional income. Notional expenditure constitutes Management Allowances, Maintenance Allowances, Major Repairs Allowance, ALMO Allowance and Charges for Capital and is projected to increase overall by 2.34% when the reduction in stock is taken account of. Notional income predominantly constitutes the guideline rent and is projected to increase by 3.44% once the reduction in stock has been accounted for. The impact of this means that for the first time it is projected that Wigan Council will be in negative subsidy i.e. a net payer into the subsidy pot of £0.016m, compared with an anticipated receipt of subsidy of £0.685m in 2008/09. To

put this into context we received a subsidy entitlement of £4.902m in 2007/08 and £6.551m in 2006/07.

#### **4. Rent Restructuring**

CLG has proposed that guideline rent increases will be fixed for both the 2009/10 and 2010/11 determinations. Under this option the rent restructuring convergence date will flex depending on what the actual rate of inflation is in the September prior to the draft determination being issued. For 2009/10 using a fixed average guideline rent increase of 6.2% the convergence date has to be pushed back to 2024/25 to accommodate the RPI for September at 5%.

The government's purpose in introducing the rent restructuring process was to phase in, over a ten year period, equal rents for all social housing tenants, on similar properties in an area, whether Local Authority or RSL (Housing association) landlords. For the first six years Council approved rent increases in line with complying with rent restructuring, although the last two years of this was only feasible due to the introduction of the Rental Constraint Allowance which compensated councils for the lost income of capping rental increases at 5%. However this was removed for 2008/09 and consequently whilst a rental increase of 5.87% was required to comply with rent restructuring Council approved an average rental increase of 4.8%.

A rental increase of 6.35% is required in 2009/10 to comply with rent restructuring guidance. Whilst the rental constraint allowance has been re-introduced it is to limit actual rent rises to 7%, and so Councils will only be compensated for loss of income above 7% if CLG calculations show they would otherwise have had actual rent increases of higher than 7%. CLG expect very few authorities to be affected by this constraint.

The level of government subsidy assumes that rents are set at a level in accordance with the published guidelines. The Council as it did last year may set rents at a lower level and reduce the rent payable by tenants but the subsidy would not be amended to correct this. Any decision to increase rents at a rate lower than the guidelines would, therefore, lead to a corresponding reduction in the resources available to the HRA

In terms of the potential impact on tenants then currently about 66% of tenants are in receipt of full or partial housing benefit.

However given the current economic climate and the potential adverse impact upon tenants, particularly those at the threshold just above qualifying for benefit receipt, it is proposed to work through options based on rental increases below that required to comply with the rent restructuring convergence policy.

#### **5. Medium Term Prospects for the HRA**

A Medium Term Forecast was submitted with the Revenue estimates in February 2008 and has been updated to reflect the 2007/08 out-turn position and subsequent changes identified as part of the regular revenue monitoring process. This has now been rolled forward to 2011/12 and adjusted to reflect the draft determination. It is included as the Appendix to the Report.

At this stage the 2009/10 rental income contained within the forecast is based on a 5% increase, a 6.35% increase would generate additional income of £0.876m. The forecast submitted in February 2008 had anticipated that there would be no subsidy receipt in 2009/10 and so a small net contribution has been able to be accommodated within the current forecast.

Through strong budget management and efficiency drives Wigan and Leigh Housing (WALH) were able to resist inflationary pressures in 2008/09 and retain their management fee at the same cash level as delivered in 2007/08. WALH are proposing a further cash freeze on the management fee for 2009/10 which is assisting in the re-direction of HRA resources to programmed work to the Council stock.

Given the recent amendments to the Statement of Recommended Practice (SORP) with regard to the classification of capital expenditure, best practice would indicate that repairs previously capitalised now need to be accounted for as revenue expenditure. This is achieved by adding the expenditure on to the revenue programme line and reducing the revenue contribution to capital accordingly.

In 2004/05 following a change of accounting practice a reserve for £4.262m was created to fund previously non accrued interest relating to loans taken out prior to 1986, The creation of this reserve was via a prior period adjustment and accounted for by restating the opening balances at 01/04/2004. An amount of £2.182m was deemed to be HRA related and taken from the HRA accumulated balances. Following a change to the SORP an opportunity has arisen to credit back to the HRA the funding previously advanced. The precise mechanism for this transfer of £2.2m, itemised as Council Funding on the Medium Term Financial plan is still being worked through.

## **6. Conclusion and Recommendations**

### **Recommendation**

Cabinet to note the impact of the 2009/10 Draft Determination.

It is recommended that options other than following rent restructuring guidance are explored and reported back to the Joint Meeting of Overview and Scrutiny Committee and Cabinet:

**Appendix 1 – Medium Term Financial Plan HRA Forecast 2007 to 2012**

	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
Stock at beginning of year	23,093	22,888	22,808	22,728	22,648
<b>Revenue</b>	£ m	£ m	£ m	£ m	£ m
<b>Income</b>					
Rents: Dwellings	64.3	65.5	68.6	71.2	73.3
Rents: Garages, shops & land	0.7	0.6	0.6	0.6	0.6
Voids and bad debts	-1.3	-1.1	-1.2	-1.2	-1.2
Subsidy	4.9	0.7	0.0	-1.0	-1.0
Misc income					
<b>Total Income</b>	68.6	65.7	68.0	69.6	71.7
<b>Expenditure</b>					
Net Supervision and management	12.8	14.2	14.3	14.6	15.1
Responsive repairs	11.9	12.0	12.5	12.5	12.5
Revenue programmes	4.1	9.5	8.5	9.0	9.0
Debt charges	15.6	15.6	15.6	15.6	15.6
Debt repayment				4.4	4.4
Major Repairs	13.7	13.6	13.9	13.7	13.7
<b>Total Expenditure</b>	58.1	64.9	64.8	69.8	70.3
<b>Net surplus</b>	10.5	0.8	3.2	-0.2	1.4
<b>Balance at beginning of year</b>	4.3	7.6	8.6	6.2	3.0
Interest on general balances	0.3	0.2	0.2	0.2	0.2
Revenue contribution to capital	7.5	0.0	5.8	3.2	1.6
<b>Balance at end of year</b>	7.6	8.6	6.2	3.0	3.0
<b>Major Repairs Reserve</b>					
Brought Forward	2.6	0.0	1.1	0.0	0.0
In	13.7	13.6	13.6	13.7	13.7
Used	16.3	12.5	14.7	13.7	13.7
Carry Forward	0.0	1.1	0.0	0.0	0.0
<b>Capital</b>					
<b>Capital Expenditure</b>					
5 Yr ALMO Improvement Programme	19.6	6.7	2.5	2.5	2.5
Ince (removed from minor works)		2.1	1.6		
Capitalised repairs	4.3				
Capitalised salaries : works	1.0	1.0	0.7	0.7	0.7
Capitalised salaries : Sales of Dwellings	0.3	0.3	0.3	0.3	0.3
Minor programmes/ unallocated	0.6	4.8	11.8	12.0	12.6
High Rise Flats		1.0	4.5	2.2	
Demolition	0.1	0.1	0.1	0.1	0.1
<b>Total Capital Expenditure</b>	25.9	16.0	21.5	17.8	16.2
funded by					
Borrowing					
Major Repairs Reserve	16.3	12.5	14.7	13.7	13.7
Revenue contribution to capital	7.5	0.0	5.8	3.2	1.6
Reimbursed improvements	1.0	0.6	0.3	0.2	0.2
Capital receipts to fund works	0.5	0.1	0.1	0.1	0.1
Capital receipts to fund dwelling sales	0.3	0.3	0.3	0.3	0.3
Capital allowance	0.3	0.3	0.3	0.3	0.3
Council Funding		2.2			
<b>Total Capital Resources</b>	25.9	16.0	21.5	17.8	16.2

