

**Report to:** Joint Meeting of Cabinet and Overview and Scrutiny Committee / Council

**Date:** 7th January 2009

**Subject:** Housing Revenue Account (HRA) Rent Setting 2009/10.

**Report of:** Joint report of the Executive Directors of Business Support Services and Environmental Services, and the Chief Executive of Wigan & Leigh Housing.

**Contact officer:** Mark Rotheram Ext 2257

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**Purpose / summary:** To recommend a proposal for rents and minor charges for 2009/10 for local authority dwellings.

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

**Recommendation / decision:** Council is asked to agree:

- An appropriate level of increase for dwelling rents for 2009/10.
- An appropriate level of increase for service charges for 2009/10.
- That garage rents increase in line with dwelling rents.

**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
	WALH Tenant Board Members 23.12.08		WALH Board 06.01.09
Panel	Overview & Scrutiny	Cabinet	Council
	11.12.2008, 07.01.2009	11.12.2008, 07.01.2009	07.01.2009

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 19 December 2008

## **1.0 Background**

1.1 This report makes recommendations in respect of the setting of rents for Council housing next year. This should be seen in the context of the timetable for preparation and approval of the HRA estimates which is set out in the Table below.

1.2 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
19 <sup>th</sup> December 2008	Final HRA subsidy determination received.
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

1.3 At the Joint Meeting of Overview and Scrutiny Committee and Cabinet on the 11<sup>th</sup> December a decision on a rental increase to recommend to Council was deferred pending the release of the final HRA subsidy determination. An additional Joint Meeting of Overview and Scrutiny Committee and Cabinet has been arranged for the 7<sup>th</sup> January 2009, prior to Council, in order to recommend an appropriate rental increase.

## **2. Subsidy Determination**

2.1 The Draft determination issued on the 29<sup>th</sup> October 2008 projected that for the first time Wigan Council will be in negative subsidy i.e. a net payer into the subsidy pot of £0.016m in 2009/10. As a consequence of this we took the opportunity to send a response back to the Department for Communities and Local Government (CLG) expressing our profound dissatisfaction with the proposed settlement and detailing a number of specific concerns.

2.2 Further to this the final determination was posted on the CLG website on the 19<sup>th</sup> December 2008. The allowances for Wigan Council have increased by £1.06 per dwelling in the final determination compared to the draft. The impact of this is to increase our subsidy receivable by £0.024m in 2009/10.

- 2.3 The final determination now provides increases of 5.95% (5.72% increase in 2008/09) for the Management Allowance per dwelling compared with the 2008/09 final determination and 4.57% (2.78% increase in 2008/09) for the Maintenance Allowance per dwelling. This has been offset by an increase of 4.36% (6.56% increase in 2008/09) on the notional rent per dwelling.
- 2.4 Further to the Chancellor's Pre-Budget Report in November 2008, Central Government have decided to bring forward £175 million of resources from 2010/11 to 2009/10. The final determination does not include details of the distribution of this via the Major Repairs Allowance. The additional resource in 2009/10 will be made available to those authorities who can demonstrate they can use the additional resource in conjunction with their existing allocation to fund appropriate major works in 2009/10. CLG will issue guidance early in 2009 on how Authorities can bid for this resource. It is important to note that this £175 million will be taken from the subsidy resource available in 2010/11 with the consequent reduction in Major Repairs Allowance per dwelling in that financial year.
- 2.5 The final determination confirms the intention of CLG to pre-set guideline rent increases in the HRA subsidy determination for both 2009/10 and 2010/11 at levels that equate to assumed inflation rates. Ministers have proposed that average guideline rent increases for each local authority are based on a national average of 6.2% in 2009/10 and 6.1% in 2010/11. For 2009/10 using a fixed average guideline rent increase of 6.2% the convergence date has to be pushed back to 2023/24 to accommodate the September RPI figure of 5%. In terms of the guideline rental increase for 2010/11, a lower September 2009 RPI figure, will enable the rent convergence date to be brought back closer to the original intended date of 2011/12 and still accommodate an average guideline rental increase of 6.1%.
- 2.6 It is important to note that the increase in actual rent is constrained by CLG through the prescribed calculation that the maximum increase for an individual rent is September RPI plus half of one percent plus £2. As such a low RPI figure next year will increase the gap between the rental income we can actually raise and the income level CLG assumes we can raise via the guideline rent which forms part of the subsidy calculation.
- 2.7 One element of the subsidy calculation is an allowance for a charge for capital. A component part of which is the London Interbank Bid Rate (LIBID). The latest official notification from CLG is that this rate is 6.01%. Using this rate together with the allowances advised in the final determination produces a projected negative subsidy of £0.038 million for Wigan Council in 2009/10. However the very latest advice from the Council's specialist Treasury advisors is that the 3 month LIBID average rate is 5.45%, utilising this in the calculation produces a projected negative subsidy of £0.131 million. Given the current volatility with interest rates it is difficult to predict what the LIBID rate may be in 2009/10, however for the purposes of the estimates it is prudent to assume that Wigan Council will become a net payer into the subsidy pot.
- 2.8 It is important to note that this fundamental shift into becoming a net payer represents a significant loss of income to the Council compared with the anticipated receipt of subsidy of £0.685m in 2008/09 and the actual receipt of subsidy of £4.902m in 2007/08 and £6.551m in 2006/07.

### **3. Rent Levels**

- 3.1 From the inception of rent restructuring in 2002/03 until 2007/08 the Council conformed with the relevant guidelines and uplifted the rental increase by the rate required to comply. The aim of the policy is to ensure that there is a consistent approach to the setting of rents for all social housing by linking rents to both the value and size of the property and to manual earnings in the area.
- 3.2 As part of the 2008/09 rent setting process the Council was unable to approve the rental increase of 5.87% required to comply with rent restructuring guidance but instead approved an increase of 4.8%.
- 3.3 For 2009/10 a rental increase of 6.35% is required to comply with rent restructuring guidance. This calculation is based on the RPI for September at 5% and will require the convergence date to be pushed back from 2011/12 to 2023/24.
- 3.4 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. The implications of this are detailed in the briefing note attached as Appendix 1.
- 3.5 Assuming that the rent convergence policy is adhered to, then by deviating away from the rental increase required to comply, it would mean that at some point we would need to catch up the difference in order to converge. This may be felt to be more achievable in future years when economic conditions are more favourable. However any future rent rises required to catch up with convergence would still need to be within the prescribed limit as per paragraph 2.6.
- 3.6 In terms of the potential impact on tenants then currently about 66% of tenants are in receipt of full or partial housing benefit.
- 3.7 However given the current economic climate and the potential adverse impact upon tenants, particularly those at the threshold just above qualifying for benefit receipt, Cabinet in approving the HRA Budget Briefing report recommended that options based on rental increases below that required to comply with the rent restructuring convergence policy be explored.
- 3.7 The following additional options have been considered ;
  - a) Rental increase of 5% based on the RPI figure for September utilised in the subsidy calculations. This figure is also utilised to uplift the annual pension increase.
  - b) Rental increase of 4.8% in line with the 2008/09 approved increase.
  - c). Rental increase of 4.5% based on the Consumer Price Index for October.

To assist Cabinet members in determining any proposed increase that they would wish to recommend to Council, appendices set out the distribution of rent increases based on Rent Restructuring Guidance (Appendix 2A – 6.35%), September RPI (Appendix 2B – 5%), 2008/09 increase (Appendix 2C – 4.8%), October CPI (Appendix 2D – 4.5%).

These may be summarised as follows:

% increase	6.35%	5.0%	4.8%	4.5%
Avg. weekly rent	£63.60	£62.79	£62.67	£62.49
Increase per week	£3.80	£2.99	£2.87	£2.69

- 3.8 Options lower than 4.5% were also considered, the impact of a 4% increase and a 0% increase are illustrated in Appendix 3 to the report. In terms of a 0% increase not only would the additional £3.80 (when compared with 6.35%) not be added to the base, impacting on each and every subsequent year, there is the compound impact of future year increases being calculated from a lower base. As such the 5 year impact of a 0% increase in 2009/10 is a loss of resource of £21.8 million when compared with a 6.35% rent increase.
- 3.9 A special meeting of the Wigan and Leigh Housing Tenant Board has been arranged for the 23<sup>rd</sup> December to discuss the level of possible rent rises and the impact on the various repair and maintenance programmes, this will be reported back verbally.

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

- 4.1 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 Appendix 4 to the Report.
- 4.2 At this stage the 2009/10 rental income contained within the forecast is based on a 5% increase.

The table below details the resources available to fund the works programme for 2009/10 dependant on the level of the rental increase.

Income and Expenditure implications of various budgetary options				
	6.35% (£m)	5.0% (£m)	4.8% (£m)	4.5% (£m)
Rental Income	68.8	67.9	67.8	67.6
Minor Works Programmes	12.7	11.8	11.7	11.5
Total Capital Expenditure	22.4	21.5	21.4	21.2

- 4.3 An alternative would be to continue with the priority programme for 2009/10 and reduce the year end surplus of £5.2 million. However given that the year end surplus reduces to £3 million in 2010/11 it would require some re-phasing of work in that year to maintain a prudent level of surplus.

## **5. Minor Charges**

- 5.1 Formerly this Council's standard practice was to increase minor charges for garages, furniture, concierge and caretaking etc by the same percentage as the average rent increase. However, in late 2005 the Government issued guidance indicating that increases in service charges, (where set separately from rents, as in Wigan) should be limited to RPI plus half of one percent. The relevant RPI figure is the September one of 5.0% and so the maximum increase permissible for service charge is 5.5%. The Council could decide to increase service charges by a percentage lower than this, for example using the same percentage as applied to dwelling rents.
- 5.2 The rents charged for garages are indeed rents and not service charges and may thus increase in line with dwelling rents.
- 5.3 Information on the levels of Supporting People funding for 2009/10 is not yet available and so it is proposed that the decision on the level of support charges for residents of sheltered accommodation be deferred until a later date.

## **6.0 Conclusion**

- 6.1 The Council will need to determine an appropriate level of rent increase bearing in mind the current economic climate, the financial pressures on the HRA and the desired level of programmed work deliverable.

## **7.0 Recommendation**

Following the Joint Meeting of Cabinet and Overview and Scrutiny Committee Council is asked to agree the recommendation of Cabinet with regard to approving :

An appropriate rent increase.

An appropriate service charge increase.

Garage rents increase by the same percentage as dwelling rents.

# **Appendix 1 Briefing Note – Views of Wigan & Leigh Housing Tenants Stock Investment Task Group on the Priority Programmes for 2009/10**

## **Background**

In November the Tenant Stock Investment Task Group met which included both Wigan & Leigh Housing's Tenant Board Members and tenants to discuss the programmed works priorities over the next three years but in particular 2009/10.

Using the existing revised Medium Term Financial Plan they looked at a range of options that would be carried out in addition to those works which are already committed to roll over into 2009/10.

These balancing schemes were based on a proposed 5% rent increase thus providing approximately £9.4 million on a wide range of projects. Should funding be reduced the lower priorities would need to be slowed down or omitted from the works programme for 2009-10.

For example If the rental increase is 4.8% then approximately £130,000 would need to be cut from the programmes and all the replacement kitchens and some off road parking schemes would be effected.

If the rent increase is set at 4.5% then approximately £325,000 will be cut from the 2009/10 programmed work. This would mean that the replacement kitchen programme would need to be deferred and the environmental initiatives and off road parking scheme would have to be re-phased.

Alternatively should rents increase by 6.35% a further £880,000 will be added to the budget to accelerate the high priority programmes and reduce fuel bills and provide safe and secure homes.

## **Conclusion**

The key priorities of the Stock Investment Task Group included:

- Reducing tenants fuel bills.
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- Providing safe and secure homes.
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- Now that 95% of homes were decent this standard must be maintained and if funding becomes available install new bathrooms in all properties.

The top seven schemes received over 80% support. The majority of the tenants group agreed that mop up schemes were desirable but now a lower priority following the completion of the previous programmes and could be carried out when the properties become vacant.

The group confirmed the bottom two proposals were not a priority.

## Priority Programmes for 2009/10

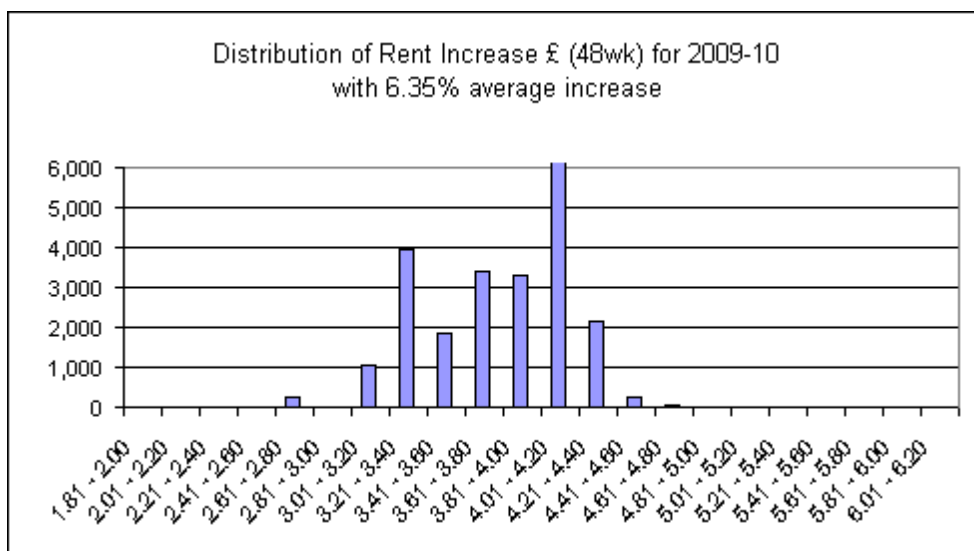
1. Continuation of fuel change electric to gas
2. Heater/Boiler Programme
3. Rewiring to properties
4. (joint 3<sup>rd</sup>)-Additional security to flats above shops and 2 storey flats
5. Security lighting to bungalows
6. Bathrooms
7. Improved insulation to hard to access properties and flat roofs
8. Re-roofing programme
9. Locally managed environment fund (£50k to each forum)
10. additional security locks – hot spots
11. Investigate options to supply communal electricity using photovoltaic cells and pilot sheltered or high rise flats
12. Environmental initiatives and off road parking
13. Kitchens
14. Provide an additional door to single access bungalows
15. Provide grants to tenants to carry out work.

**Appendix 2A - Distribution of Rent Increases (48wk) with 6.35% average increase**

Rent Increase Range (£)	Number of properties
1.81 - 2.00	0
2.01 - 2.20	0
2.21 - 2.40	0
2.41 - 2.60	22
2.61 - 2.80	228
2.81 - 3.00	9
3.01 - 3.20	1,066
3.21 - 3.40	3,961
3.41 - 3.60	1,874
3.61 - 3.80	3,386
3.81 - 4.00	3,302
4.01 - 4.20	6,545
4.21 - 4.40	2,129
4.41 - 4.60	265
4.61 - 4.80	34
4.81 - 5.00	6
5.01 - 5.20	7
5.21 - 5.40	0
5.41 - 5.60	1
5.61 - 5.80	2
5.81 - 6.00	3
6.01 - 6.20	0

Rent Increase Range (%)	Number of properties
2.01 - 3.00	1
3.01 - 4.00	0
4.01 - 5.00	0
5.01 - 6.00	1,235
6.01 - 7.00	21,189
7.01 - 8.00	409
8.01 - 9.00	5
9.01 - 10.00	1
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22,840



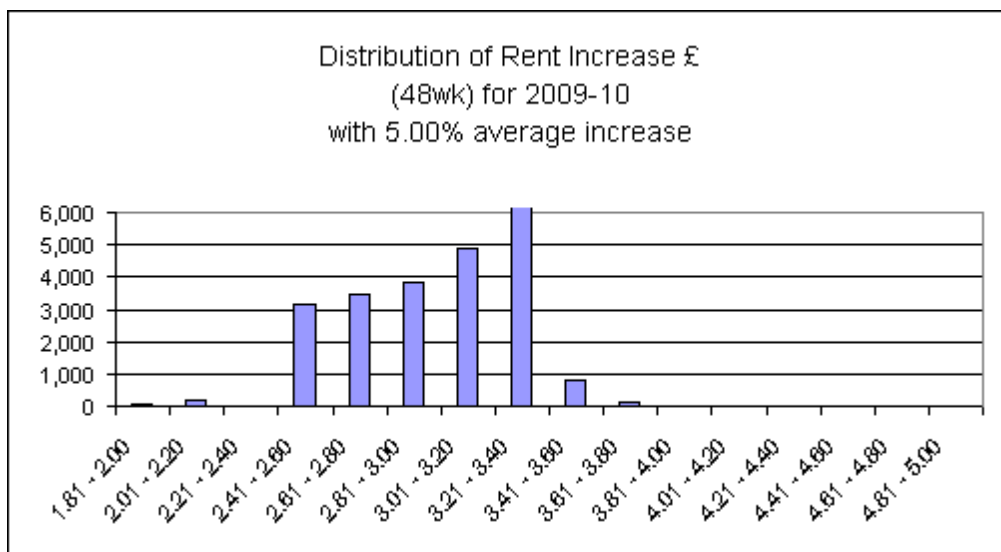
**Appendix 2B - Distribution of Rent Increases (48wk) with 5.00% average increase**

Rent Increase Range (£)	Number of properties
1.81 - 2.00	31
2.01 - 2.20	208
2.21 - 2.40	28
2.41 - 2.60	3,142
2.61 - 2.80	3,441
2.81 - 3.00	3,808
3.01 - 3.20	4,860
3.21 - 3.40	6,418
3.41 - 3.60	786
3.61 - 3.80	99
3.81 - 4.00	11
4.01 - 4.20	2
4.21 - 4.40	1
4.41 - 4.60	0
4.61 - 4.80	5
4.81 - 5.00	0

Rent Increase Range (%)	Number of properties
2.01 - 3.00	0
3.01 - 4.00	1
4.01 - 5.00	12,578
5.01 - 6.00	10,172
6.01 - 7.00	86
7.01 - 8.00	3
8.01 - 9.00	
9.01 - 10.00	

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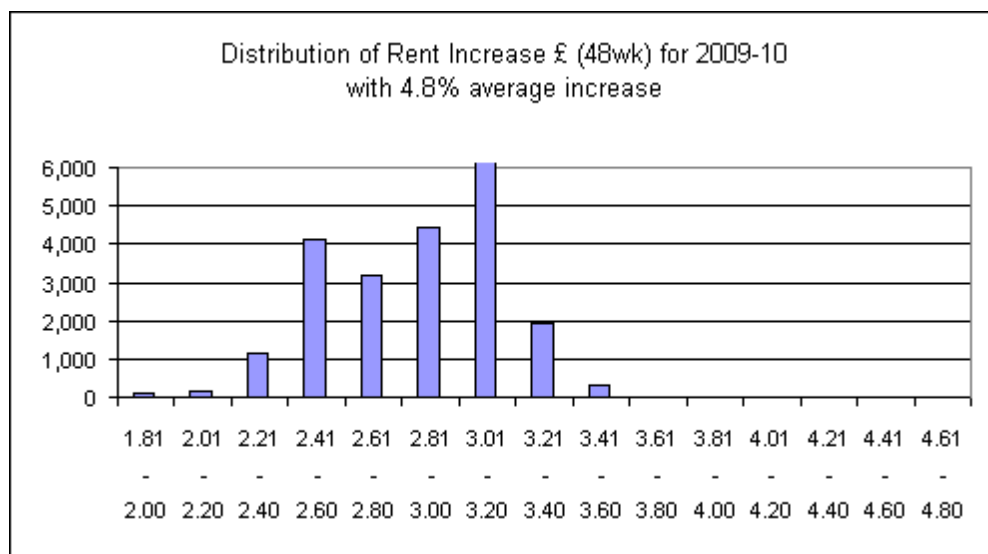
**Appendix 2C - Distribution of Rent Increases (48wk) with 4.80% average increase**

Rent Increase Range (£)	Number of properties
1.81 - 2.00	106
2.01 - 2.20	150
2.21 - 2.40	1,129
2.41 - 2.60	4,139
2.61 - 2.80	3,202
2.81 - 3.00	4,422
3.01 - 3.20	7,427
3.21 - 3.40	1,947
3.41 - 3.60	298
3.61 - 3.80	10
3.81 - 4.00	4
4.01 - 4.20	1
4.21 - 4.40	0
4.41 - 4.60	5
4.61 - 4.80	0

Rent Increase Range (%)	Number of properties
2.01 - 3.00	0
3.01 - 4.00	10
4.01 - 5.00	19,451
5.01 - 6.00	3,345
6.01 - 7.00	31
7.01 - 8.00	3
8.01 - 9.00	0

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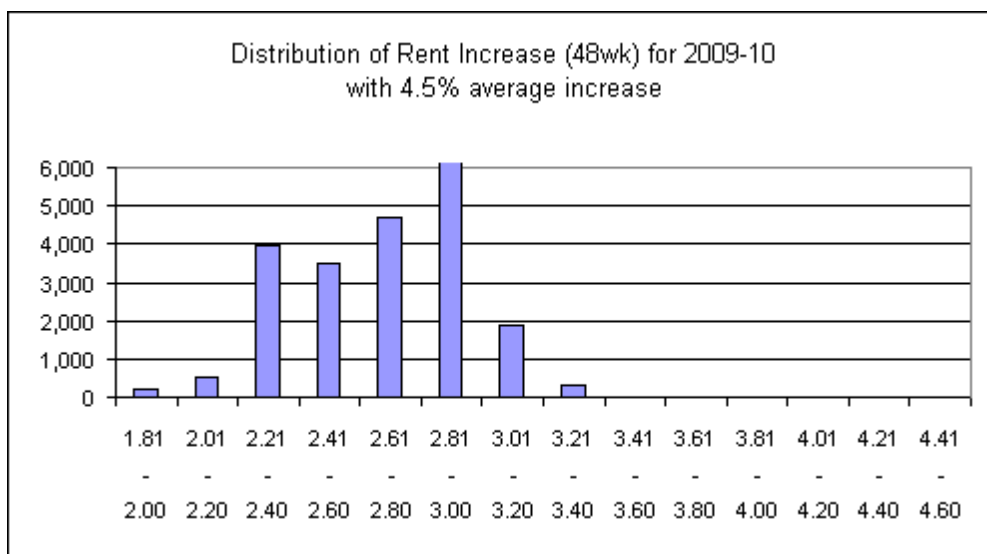
**Appendix 2D - Distribution of Rent Increases (48wk) with 4.50% average increase**

Rent Increase Range (£)	Number of properties
1.61 - 1.81	32
1.81 - 2.00	207
2.01 - 2.20	532
2.21 - 2.40	3,971
2.41 - 2.60	3,477
2.61 - 2.80	4,709
2.81 - 3.00	7,704
3.01 - 3.20	1,900
3.21 - 3.40	289
3.41 - 3.60	10
3.61 - 3.80	3
3.81 - 4.00	1
4.01 - 4.20	0
4.21 - 4.40	5
4.41 - 4.60	0

Rent Increase Range (%)	Number of properties
2.01 - 3.00	0
3.01 - 4.00	211
4.01 - 5.00	21,867
5.01 - 6.00	747
6.01 - 7.00	13
7.01 - 8.00	2
8.01 - 9.00	0

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22,840
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### Appendix 3 Implications of Various Rent Options

Rent Rise Option	6.35%	5%	4%	0%
Average Weekly Rent	£63.60	£62.79	£62.19	£59.80
Increase per week	£ 3.80	£ 2.99	£ 2.39	0
Impact on budget (works)				
2009/10	0	-£885,220	-£1,540,938	-£4,152,883
5 years	0	-£4,653,006	-£8,099,678	-£21,828,918
30 years	0	-£38,863,544	-£67,651,354	-£182,322,798
Consequences	Speeds up boiler replacement  Could enable start to bathroom programme in 2011/12	Fully funds tenants' priorities  Includes 8,000 boiler replacements over the next 3 years.	Kitchen replacements ends  Reduced environmental budgets (fencing, parking and so on)	Major implications short and long term  As 4% plus also lose  Area Forums Budgets  Roofing programme  Rewiring  Cannot sustain boiler replacement programme

#### Note

A 1% rental increase equate to an additional 60p per week

A 1% reduction in the percentage uplift removes approximately £650k of resource from the programmed works.

**Appendix 4 – 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	-1.0	-1.0	-1.0
Misc income					
<b>Total Income</b>	68.6	65.7	67.0	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	2.2	-0.2	1.4
<b>Balance at beginning of year</b>	4.3	7.6	8.6	5.2	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	2.2	1.6
<b>Balance at end of year</b>	7.6	8.6	5.2	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>					
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	0.6	4.8	11.8	11.0	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	16.8	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	2.2	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	16.8	16.2