

## WIGAN AND LEIGH HOUSING BOARD 5<sup>TH</sup> JANUARY 2010

### Report of the Director of Resources

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### Management Fee 2010/11

<b>Purpose/Summary:</b>						
To seek approval of the Management Fee estimates for 2010/11.						
<b>Recommendations:</b>						
<ol style="list-style-type: none"> <li>1. The Management Fee estimates for 2009/10 of £15.715m be accepted.</li> <li>2. An under spend of £200,000 be declared to the Council for the current financial year.</li> </ol>						
<b>For decision, discussion or information?</b>		Decision				
<b>For the open part or the press and public excluded part of the agenda? If press and public excluded please state reason.</b>		Open				
<b>Resource and Value for Money Implications:</b>	The Company relies on the Management Fee as its main source of income and year on year increases are measured against proposed increases in management costs indicated by the Government.					
<b>Employee Implications:</b>	None arising directly from this report.					
<b>Key Risks incl. Company reputation, business relationships, health and safety and legal implications</b>	Not to have funds identified would mean changes in both the level and quality of services provided.					
<b>Equality (Impact) Assessed?</b>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	Not Applicable	<input checked="" type="checkbox"/>
<b>Equality &amp; Diversity and Community Implications:</b>	None arising directly from this report.					
<b>Environmental Implications:</b>	None arising directly from this report.					
<b>Area Forums Affected:</b>	All					
<b>Tracking/Process</b>	<b>Consultation</b>	<b>Area Forum/s</b>	<b>Committee</b>	<b>Board</b>		
				5 January 2010		

## **1.0 Background**

- 1.1 The Wigan and Leigh Company Ltd Management Fee of £15.332m was agreed by the Council for the 2009/10 financial year. This fee has not increased for 3 years.
- 1.2 The Draft Housing Subsidy Determination issued late last year nationally has allowed for a 2.5% increase in the Management Allowance. This is equivalent to an extra £690,000 for Wigan.
- 1.3 There are indications that although the Retail Price Index is currently less than 0.5%, by March it will be approaching the 2.5% level with some views being expressed that it might even exceed 3% during the subsequent months.
- 1.4 The Draft Housing Subsidy Determination suggests that the Council is likely to lose the £2.5m worth of government assistance to the Housing Revenue Account (HRA) compared to the amount it received this year. We will again become a net contributor to the national pot as the Council moves into Negative Subsidy.

## **2.0 Management Fee**

- 2.1 The expenditure relating to the Management Fee for the current Financial Year up to the end of November (Month 8) indicates that we have spent 63% of this year's budget. In comparison at the same time last year 58% of the budget had been spent and that year ended with just over a £700k under spend.
- 2.2 Employee expenditure is some 5% down on budget reflecting the robust management of the company's staffing costs. In addition the financial consequences of the implementation of Job Evaluation (JE) from 16<sup>th</sup> November 2009 have not yet been included in the accounts. These costs cannot be finalised as there are still some outstanding Appeals that need to be considered. There are other areas of "under spends" although some of these relate to costs that are not yet in the financial system.
- 2.3 To date, we have not declared to the Council that we are likely to under spend the budget. Informally they are aware of the situation. However, I would expect that the under spend at year end will be below £500,000. I therefore suggest that we declare to the Council an under spend projection of £200,000.
- 2.4 It should be remembered that at year end all the under spend is returned to the HRA balances for the future benefit of the tenants. In the past these savings have been used to fund extra work on things like fuel efficient boilers.
- 2.5 The greater proportion of the Management Fee is accounted for by staffing costs. So it is important that the strict controls in this area of expenditure are maintained. It also means that the company's costs are significantly dictated by national pay awards and changes in national insurance and pension contributions. In accordance with the Council's provision, estimated employee costs have been increased by 1.0% after allowing for the costs of increments and job evaluation adjustments. As a company we are keen that we continue

to improve our services. To help with this aim we need to move our staff on in terms of their skills levels and so additional resources have also been allocated for training and this is included in this budget head.

2.3 Board Members may recall that we gave an undertaking as a company to be modest in future growth requests. This recognised the significant growth that had taken place in the first two years of the ALMO's existence. The last few years of nil increases followed a reduction of the fee by £145,000 in 2007/08. During this time, the HRA has benefited from Management Allowance increases totalling around £2m. Further, in the review of the HRA, the Government have acknowledged that management allowances need to increase by a further 5% nationally. At this time last year when we indicated that we would again hold the Management Fee we also said that, based on our medium term financial plan approved by the board in 2008, we would be looking for a 2.5% increase in the fee. This request represents an increase of £383,000 in the fee. This would enable us to continue to improve our services even further and ensure that the Council's tenants were receiving an excellent service that offered both quality and value for money. It will allow for the introduction of Repairs appointments and concentrated work on anti-social behaviour. A paper at the next Board meeting provides an update on our constant push for VFM and the benefit that tenants are gaining from this. It should be remembered that our fee has only increased by 2.5% over the last four years whilst in comparison general inflation has increased by some 8% as measured by the Retail Price Index.

2.4 The table below sets out the Management Fee expenditure for last year, the current year and the estimate for the forthcoming year.

<b>Budget 08/09</b>	<b>Actual 08/09</b>		<b>Budget 09/10</b>	<b>Actual to Nov</b>	<b>Probable Outturn 2009/10</b>	<b>2010/11 Estimate</b>
£000s	£000s	Income	£000s	£000s	£000s	£000s
-15331	-14628	ALMO FEE	-15332	-10222	-14985	-15715
		Expenditure				
11967	11525	Employee Costs	11927	7575	11600	12426
1056	991	Premises Related Costs	1017	654	1033	951
408	411	Transport Related Costs	427	272	405	428
1131	989	Supplies and Services	1162	692	1162	1168
257	258	Transfer Payments	282	143	295	284
516	474	Support Services	520	340	520	461
-4	-21	Recoverable costs	-3	-28	-30	-3
15331	14628	Total Expenditure	15332	9648	14985	15715

2.5 Despite the proposed small increase in the fee the next financial year will be challenging financially. This pressure will be met by continuing robust management of the staffing costs, constantly reviewing our procedures and continually improving procurement processes in respect of our controllable expenditure.

### **3.0 Supervision and Management Element of HRA**

- 3.1 The WALH Management Fee is included in the Supervision and Management element of the HRA. Also included in this line are a range of other costs such as grounds maintenance, communal area costs and costs associated with Right to Buy. These costs plus the Management Fee are netted off by income from areas such as tenants' service charges, supporting people funding and recharges to the Council's General Fund for services such as Homelessness.
- 3.2 This means that the estimated net charge in 2009/10 to the HRA for Supervision and Management is just under £16m.

### **4.0 HRA Medium Term Financial Plan**

- 4.1 The latest version of the HRA Medium Term Financial Plan is attached at Appendix A. This is updated as the estimate process continues. As mentioned earlier, the tenants of Wigan and Leigh will be contributing to housing costs of tenants in other areas of the country such as London. The expected change in the treatment of ALMO subsidy has been delayed until 2011/12 and this could see a further £2m contribution from the Council to the Government. Thus, the expenditure pressures are building on the HRA and this can be seen by the way the Balance on the HRA (half way down the page) is reducing. However, this has to be read in the light of proposals by the Government to change the HRA subsidy system.
- 4.2 The Government are carefully considering all the detailed responses received to their consultation about self-financing to which there appears to be overwhelming support. This system would see local authorities retain all their rental income, all their capital receipts, and have a sustainable level of debt based on a significant increase in the scope to spend on housing services and standards. Self-financing will increase local responsibility for long-term planning, asset management, and for meeting the needs of local people. It will enable local authorities to improve the management of their homes and services to tenants, to continue to deliver Decent Homes, and to secure greater efficiencies through being able to plan ahead with greater confidence. The Government's work on establishing the structure and detail of a self-financing offer to local authorities with social housing and a housing revenue account is progressing well. In February the Government expect to be able to confirm the progress made and set out in detail the parameters of the changes planned. This should enable local authorities to make a more informed assessment about what self-financing might mean for future financing, sustainability and housing standards with the continued ownership of their housing stock.
- 4.3 The Current Medium Term Financial Plan assumes that in light of the above, no minimum revenue provision, the name used for the repaying of debt, will be brought into play in 2010/11.

### **5.0 Conclusions**

- 5.1 The financial pressure on the HRA is increasing and it is likely that this pressure will increase. This in turn will mean that room for increases in the

Management Fee is extremely limited. We will need to work smarter and more efficiently if the current level of service provision is to be maintained.

- 5.2 The current year's Management Fee after various adjustments is likely to be under spent by under £500,000. This will be returned to the HRA balances.
- 5.3 Noting the long period of reductions and zero increases in the Management Fee, there is a need for an increase in line with the Government increase for management allowances at 2.5% next year – i.e. £15,715m subject to no variations in the Council recharges as their estimate process proceeds. It is recognised that even with this modest increase the company will require positive action to control its baseline expenditure if it is to remain financially stable and assist the HRA that is facing a tightening financial position.

## **6.0 Recommendations**

- 6.1 The Management Fee estimates for 2010/11 of £15.715m be accepted.
- 6.2 An under spend of £200,000 be declared to the Council for the current financial year.

**Appendix A**  
**Medium Term Financial Plan**  
**2009/10 to 2012/13**

	<u>Updated</u> <b>2009/10</b>	<u>Updated</u> <b>2010/11</b>	<u>Updated</u> <b>2011/12</b>	<u>Original</u> <b>2012/13</b>
Stock at beginning of year	22,831	22,800	22,750	22,700
Rent increase	3.10%	2.56%	2.56%	2.56%
<b>REVENUE ACCOUNT</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
<b>Income</b>				
Rents: Dwellings	67.5	69.1	70.7	72.4
Rents: Garages, shops & land	0.6	0.6	0.6	0.6
Voids and bad debts	-1.1	-1.2	-1.2	-1.2
Subsidy	1.2	-1.3	-4.6	-6.2
Interest earned on general HRA balances	0.0	0.0	0.0	0.0
<b>Total Income</b>	<b>68.2</b>	<b>67.2</b>	<b>65.5</b>	<b>65.6</b>
<b>Expenditure</b>				
Supervision and management (net cost)	15.3	15.7	16.1	16.5
Repairs: Responsive repairs	16.5	15.5	15.5	15.5
Repairs: Revenue programmes	10.6	8.7	5.4	5.3
Debt charges Interest	13.9	14.0	14.1	14.1
Major Repairs (Depreciation)	13.8	13.8	13.7	13.7
<b>Total Expenditure</b>	<b>70.1</b>	<b>67.7</b>	<b>64.8</b>	<b>65.1</b>
<b>Net surplus for the year</b>	<b>-1.9</b>	<b>-0.5</b>	<b>0.7</b>	<b>0.5</b>
<b>HRA ACCUMULATED SURPLUS</b>				
<b>Balance at beginning of year</b>	<b>9.4</b>	<b>6.0</b>	<b>3.8</b>	<b>4.0</b>
Revenue Account surplus for year	-1.9	-0.5	0.7	0.5
Debt repayment	0.0	0.0	0.0	0.0
Revenue contribution to capital spend	1.5	0.5	0.5	0.5
Revenue contribution to HRA new build		1.2	0.0	0.0
<b>Balance at end of year</b>	<b>6.0</b>	<b>3.8</b>	<b>4.0</b>	<b>4.0</b>
<b>MAJOR REPAIRS RESERVE</b>				
Brought Forward	0.0	0.0	0.6	0.0
In	13.8	13.8	13.7	13.7
Used	13.8	13.2	13.8	13.7
Carry Forward	0.0	0.6	0.5	0.0
<b>CAPITAL ACCOUNT</b>				
<b>Capital Expenditure</b>				
Main Capital Programme excluding flats	8.8	11.0	13.8	13.7
High Rise Flats	5.5	2.2		
Capitalised repairs	0.0	0.0	0.0	0.0
Capitalised salaries on works	0.5	0.5	0.5	0.5
Ince	0.5			
New Build HRA Etherstone	0.0	0.8		

New Build HRA Windsor	0.0	1.0		
New Build HRA Orchards	0.0	4.6		
<b>Total Capital Expenditure</b>	15.3	20.1	14.3	14.2
<b>funded by</b>				
HCA grant for new build HRA	0.0	3.2		
Borrowing for new build HRA	0.0	2.0	0.0	0.0
RCCO new build HRA	0.0	1.2		
Major Repairs Reserve	13.8	13.2	13.8	13.7
Revenue contribution to capital (cap sals)	1.5	0.5	0.5	0.5
Reimbursed improvements	0.0	0.0	0.0	0.0
Capital receipts to fund demolition works	0.0	0.0	0.0	0.0
Capital grants to fund works	0.0	0.0	0.0	0.0
Capital allowance	0.0	0.0	0.0	0.0
<b>Total Capital Resources</b>	15.3	20.1	14.3	14.2