

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	3 March 2020
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Housing Revenue Account Budget 2020/21
REPORT NUMBER	RES/20/60
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Helen Sherrit
TERMS OF REFERENCE	2

1. PURPOSE OF REPORT

- 1.1 To provide elected members with information to enable the Council to approve a revenue and capital budget for 2020/21, including setting of the rents and other charges on the Housing Revenue Account (HRA) for the financial year.

2. RECOMMENDATIONS

That Council:

- 2.1 approve the budget as attached in Appendix 1 pages 5 to 6 of this report;
- 2.2 approve the setting of the weekly unrebated rents for municipal houses taking account of proposals outlined for a fixed rent policy, as detailed in Appendix 1, pages 5 to 6 of this report, to take effect from Monday 4 May 2020;
- 2.3 approve the level of revenue contribution to the Housing Capital budget for 2020/21 as well as note the provisional contribution for the subsequent four financial years as detailed in Appendix 1, pages 19 to 20;
- 2.4 approve the proposal to maintain the working balances at 10% to meet future contingencies as detailed in Appendix 1, pages 5 to 6;

- 2.5 approve the level of miscellaneous rents and service charges, including Heat with Rent as detailed in Appendix 1, pages 12 to 13, to take effect from Monday 4 May 2020;
- 2.6 approve, based on the rental increase of 3% the Base Capital Programme for the financial year 2020/21 Appendix 1, pages 22 to 24;
- 2.7 note the indicative level of the Base Capital Programme for the financial years 2021/22 to 2024/25 Appendix 1, pages 22 to 24;
- 2.8 approve as estimated expenditure in terms of Procurement Regulation 4.1.1, in order for work to commence on the Ongoing Capital Programme, the sums shown against each heading of the Housing Capital Expenditure budget for the financial year 2020/21 set out in Appendix 1, pages 22 to 24 without the need for separate Committee approval of each;
- 2.9 delegates authority to the Director of Resources, following consultation with the Chief Officer – Capital, Head of Commercial and Procurement and conveners of the Capital Programme Committee and the City Growth and Resources Committee, to approve business cases related to the expenditure approved in terms of recommendation 2.8 and to undertake or instruct appropriate procedures in accordance with the ACC Procurement Regulations to procure the works referred to in those business cases within the budgets allocated in Appendix 1, pages 22 to 24 for the capital programme for the financial year 2020/21 and to authorise the award contracts relating thereto;
- 2.10 approve the transfer of land at market value to the HRA, to deliver council housing (subject to undertaking all necessary consultations) in respect of the following sites:
 - 2.10.1 Greenferns and Greenferns Landward
 - 2.10.2 Former Kaimhill Outdoor Centre
- 2.11 delegate authority to the Director of Resources, following consultation with the Chief Officer - Finance, Chief Officer – Capital, Head of Commercial and Procurement and the conveners of the Capital Programme Committee and the City Growth and Resources Committee, to approve business cases and expenditure, undertake all necessary procurement exercises to procure the works referred to in those business cases in accordance with the ACC Procurement Regulations and authorise entering into contracts and development agreements related thereto, for council housing at the following sites subject to them falling within the financial model for HRA:
 - 2.11.1 Greenferns and Greenferns Landward
 - 2.11.2 Former Kaimhill Outdoor Centre

3. BACKGROUND

Projected Out-turn 2019/20

- 3.1 In looking at the position for the next financial year it is useful to put into context the financial estimates for the current financial year. More detail can be found in Appendix 1 of this report.

3.2 The report outlines that the Housing Revenue Account (HRA) forecasts a capital from current revenue (CFCR) contribution of £26 million and £500k towards the working balance will be made in 2019/20 which is broadly in line with the 2019/20 budget.

3.3 The HRA budget has been aligned with the 30-year HRA Business Plan.

Institutional Framework

3.4 The Council is required to give its tenants 28 days notice of any change in the level of rent. With the decision on rent levels being taken on 3 March 2020 taking account of the various system amendments required, the change in rent levels will start on 4 May 2020. Further, the Housing (Scotland) Act 2001 requires the Council to consult with tenants on any proposed rent increase. The consultation this year was in the form of a tenant questionnaire on the possible options for rent increases.

3.5 The tenants were asked if the Council should set a fixed term rent policy, i.e. one that will be in place for a defined period and give certainty to tenants on the changes to rent that they can expect. The consultation included preferred length of time and annual rent increase. The results are shown on page 14 of Appendix 1.

3.6 In summary 1,813 tenants responded, this equates to 8.7% of all tenants, 87% agreed with a fixed rental term policy, with 13% disagreeing. The 5 year fixed period, at 4% increase per annum was the most popular.

3.7 Schedule 15 of the Housing (Scotland) Act 1987 requires expenditure in the following main areas to be charged to the HRA:

- Capital Financing Costs in respect of monies borrowed for the purpose of providing and improving the Council's housing stock;
- Management, administration and maintenance of the Council's housing stock;
- Other expenditure such as loss of rents for vacant periods, insurance, communal lighting and heating, cleaning and security.

3.8 Items of income that must be credited to the HRA are:

- Council house rents;
- Other income attributable to the HRA. For example, income recovered from tenants for heating, interest on revenue balances and, when available, transfers from working balances generated by the HRA in previous years.

3.9 In the absence of any central or local authority financial support for the HRA, the HRA is regarded as "ring-fenced". In addition, consideration of the level of capital to be financed from CFR within the HRA budget will have an impact on the Housing Capital Budget. This report, therefore, whilst indicating a proposed HRA Budget, also provides information on the Capital Budget.

Summary 5 Year Position

- 3.10 Included within Appendix 1 is an indicative budget for 2020/21 to 2024/25 with an assumed rent increase of 3% for all years based on the 30-year business plan assumptions.
- 3.11 In setting a 5-year rent strategy, Council must pay attention to the level of capital investment required to maintain and improve the overall housing conditions available to the tenants.

Underlying Strategy

- 3.12 Based on Council policy the budgeted figures have assumed a Council house rent increase of 3% in line with the HRA Business Plan.
- 3.13 The 30-year HRA Business Plan assumes RPI of 2% plus 1%.
- 3.14 In the UK, inflation remains above the 2% target. However, the Bank of England has set indicators for a target inflation rate and this is currently still set at 2%. Hence, this rate has been assumed going forward but is clearly out with the Council's control. Inflation projections are included within Appendix 1, page 18.

Housing Market Overview

Local Housing Strategy

- 3.15 The Aberdeen City Local Housing Strategy (LHS) 2018-2023 provides the strategic direction to respond to housing need and demand and informs the future investment in housing and housing related services across the city. The LHS identifies an affordable housing target of 342 homes per year in 2018/19 and 2019/20 and 385 per year in 2020/21, 2021/22 and 2022/23.
- 3.16 Layered on top of this is the underlying demand for Council rented properties as illustrated in paragraph 3.17 below. From the total waiting list numbers approximately 4,500 people do not currently have a tenancy agreement with the Council and therefore represent an underlying demand for new housing within the city.

Rental Market

- 3.17 Average private rents in the Aberdeen city stand at £716 per month (£746 per month in 2018), down 3.9% year on year at quarter 3 in 2018. The average property in Aberdeen currently takes 48 days to let, up 3 days on last year.
- 3.18 All property types (1 to 4 bed) show negative annual growth.
- 3.19 The current demand for Council housing is borne out by the waiting list which as at January 2020 has 6,437 requests for a council tenancy. Therefore, this is still an option for many, and demand is the highest for 1 bed properties, followed by 2 bed properties.

Housing Capital Plan - New Build Council housing

- 3.20 The Council's commitment to create 2,000 new Council houses continues to be progressed following approvals in the 2019/20 budget, with a range of business cases in development for a range of other sites. Alternative delivery models are being explored under the delegations provided to officers. Details are included within Appendix 1, Pages 25 to 26.

Ongoing Capital Expenditure

- 3.21 The draft budget for 2020/21 (and the subsequent four financial years) is attached as Appendix 1. This shows gross expenditure of £69.8 million financed by £23 million of borrowing along with £24 million by way of a revenue contribution, Second Homes Council Tax funding of £9.3 million and £5.5 million of Government Grants for the buy backs to fund the net programme of £62 million.
- 3.22 This capital budget reflects and includes a proposed rent increase of 3%. The details of the potential projects to be included in this programme are contained in Appendix 1, pages 22 to 24.
- 3.23 Included within the programme over the next five years is the development of 2,000 new Council homes. The Summerhill and Wellheads sites are already approved, and contractors are working on these. Further business cases will be developed during 2020/21 therefore the figures included within the plan may be subject to change depending on the level of funding available.

Reserves & Risk

- 3.24 Welfare reform, including the introduction of Universal Credit, is now beginning to impact on debt levels within the HRA. The Chief Officer - Finance must be confident that the level of working balances is adequate to meet any unforeseen contingencies during the financial year, particularly as it is forecast that the impact of welfare reform has not reached its peak.
- 3.25 Based on projected income and expenditure for 2019/20, the opening figure for 2020/21 should be approximately £10.2 million as detailed below:

Movement in Working Balances		£'000
Working balance as at 1 April 2019		12,308
Less: Earmarked sums (2019/20)		
Housing Repairs	(2,212)	
House Sales – Non RTB	(309)	(2,521)
Projected Uncommitted Working Balances 1 April 2019		9,787
19/20 Contribution to working balance		500
Projected Uncommitted Working Balances 1 April 2020		10,287
20/21 Contribution to working balance		500
Projected Uncommitted Working Balances 1 April 2021		10,787

- 3.26 It is proposed the Council continues to work towards increasing the working balance to over 10% over the next year as demonstrated in the table above.

Miscellaneous Rents

- 3.27 The budget attached in Appendix 1 also requires the miscellaneous rents and service charges to be set. As way of indication on possible increases, page 12 gives indicative increases that the Council may wish to consider. The Council will have to decide on any possible increment to these charges in line with their rent setting strategy.

Prudential Code

- 3.28 Councils are required by Regulation to have regard to the Prudential Code when carrying out their duties under Part 7 of the Local Government (Scotland) Act 2003.
- 3.29 In setting a capital programme, members will be aware that under the Prudential Code, the level of capital investment is determined at a local authority level. The base programme for consideration, subject to final rent levels is £62 million. This is attached in Appendix 1 at pages 22 to 24.
- 3.30 As part of the rent setting process of determining the average rent payable for a Council house, the Council must ensure that this is affordable and sustainable over the long term.
- 3.31 The fundamental objective, in the consideration of the affordability of the Council's capital programme, is to ensure that the total capital investment of the authority remains within sustainable limits and in particular to consider the impact on the "bottom line". That is, affordability is determined by a judgement about acceptable levels of rent.
- 3.32 The Council's Prudential Indicators are included within the General Fund report which is also included on this agenda

Business Plan

- 3.33 The Overall HRA Business Plan was approved at City Growth & Resources Committee on 18 September 2018 and set out the Council's plans for managing and maintaining the housing stock of over 22,000 rented properties held in the Housing Revenue Account (HRA).
- 3.34 It also addressed how the fund will be managed to ensure maximum value is achieved throughout the projected 30-year cycle. Its fundamental purpose is therefore to demonstrate and ensure the efficient use of the Council's housing assets and rental income. The Business Plan is designed to set out the strategic goals of the Council's Housing Service and measure progress toward achieving these goals and provides a realistic appraisal of how these strategic goals will be achieved within the limitations of available funding and the predicted economic climate.

Fixed Rent Policy

- 3.35 The current rent policy was approved in November 2016, at Communities, Housing and Infrastructure Committee this is based on the Retail Price Index (RPI) +1%, with the RPI figure taken from the Office of National Statistics (ONS) published percentage in July of the preceding year. The policy was for a three-year period; 2017/18, 2018/19 and 2019/20 therefore expires on 31 March

2020. Whilst the current three-year policy was approved by elected members, any rent changes are subject to annual approval at the Council budget meeting.

- 3.36 During 2019/20 tenants were consulted on a rent increase policy which is fixed for either 3, 4 or 5 years. If a new fixed rent policy is agreed the annual consultation exercise would end, and tenants would only be consulted prior to the end of each fixed term.
- 3.37 There are advantages for adopting the new long-term rent policy:
- Help tenants to budget, providing greater certainty about the level of rent they will have to pay;
 - Consultation has been meaningful and robust
 - Improved tenant engagement
 - Increased confidence and satisfaction in the Council as a landlord
 - Survey cost savings and increased rental income, as consultation and notification would not be required again until the end of the agreed fixed term period. On the suggested 5-year, 4% fixed term policy this could equate to c£28m for reinvestment in stock.
 - Certainty of income for the period of the policy
 - Assists financial stability of the HRA Financial Plan
 - Better use of resources e.g. Staff
 - Reduce the number of changes to the IT system
- 3.38 There are disadvantages for adopting the new long- term rent policy:
- If the cost of private lets falls further the gap between ACC may narrow leading to an increase in lease terminations
 - This would increase void properties and therefore lost rent
 - Risk of higher rent arrears
 - If inflation increases beyond forecasts rental increases will not match. This could negatively impact on the Capital plan due to lower income
- 3.39 An increase beyond 3% as consulted on would have a significant impact on the capital programme, it would allow works to be progressed more quickly particularly where option appraisal works are being undertaken or are scheduled to start. This includes programmes to look at energy alternatives and studies to look at options around city centre multi-storey buildings. Options to explore a range of heating options including Hydrogen fuelled cells and an expansion of the combined heat and power for existing stock. These would contribute to the Council's targets on climate change, energy efficiency and poverty. With regard to the current stock, this would allow for a significant number of additional upgrades to bathrooms, kitchens and glazing.

Summary

- 3.40 The Council is required to determine the average weekly unrebated rents (and other miscellaneous rents and service charges) for municipal houses to take effect from Monday 4 May 2020 which in turn will allow decisions to be taken on the level of capital investment.

4 FINANCIAL IMPLICATIONS

- 4.1 Setting the budget for the HRA and new rents and charges enables the housing stock to be managed in an effective and responsible way. The income supports in full the payment of ongoing costs of providing social housing in Aberdeen and incorporated costs of voids, debt charges, rent arrears as well as meeting the costs of repairing and maintaining the housing stock.
- 4.2 Given that the purpose of this report is to set the HRA budget for 2020/21 the financial implications are contained within the report and the attached Appendix 1.

5 LEGAL IMPLICATIONS

- 5.1 No direct legal implications.

6. MANAGEMENT OF RISK

	Risk	Low (L), Medium (M), High (H)	Mitigation
Financial	Every organisation has to manage the financial risks inherent in the operation of large and complex budgets.	M	These risks are minimised by the regular review of financial information by services and corporately by Elected Members.
Legal	None		
Employee	None		
Customer	There is a risk that the customer will not engage in the consultation for the new rent policy.	M	Promote engagement widely.
Environment	The budget proposed indicates a number of areas where energy improvements are recommended, or monies set aside to identify sustainable energy solution in the future. Not to proceed with this would create risks	M	Risks minimised if report recommendations are approved
Technology	None		
Reputational	The reputational risks to the Council are minimised by the regular review of financial information by CMT and Elected members	L	All staff and Elected Members advised.

	throughout the Financial year.		
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7. OUTCOMES

Local Outcome Improvement Plan Themes	
	Impact of Report
Prosperous People	<p>Recognising that good quality Housing is a key driver of Public Health and can affect the wellbeing of tenants in all areas of life including educational attainment, employment, and physical and mental health.</p> <p>LOIP Stretch outcome 11 - Improve health and wellbeing outcomes for at least 50% of homeless people participating in the Housing First programme by 2021</p> <p>LOIP stretch outcome 5 - 95% of care experienced children and young people will have the same levels of attainment in education, emotional wellbeing, and positive destinations as their peers by 2026</p>
Prosperous Place	<p>A core aspect of the interim structure of the Early Intervention and Community Empowerment structure and culture is community sustainability, and the management of the Housing Revenue Account, is important in this context.</p> <p>LOIP stretch outcome 14 - Addressing climate change by reducing Aberdeen's carbon emissions by 42.5% by 2026 and adapting to the impacts of our changing climate</p>
Prosperous Economy	<p>The purchasing power of the HRA creates a positive impact on the economy.</p> <p>LOIP stretch outcome 13 - No one in Aberdeen will go without food due to poverty by 2026</p>

Design Principles of Target Operating Model	
	Impact of Report
Customer Service Design	Tenant consultation, engagement and participation does align to networking, communication and learning opportunities that support customer service design e.g. early intervention and

	prevention, data management and are aligned to good customer service. We enjoy excellent relations with our tenants.
Organisational Design	This promotes quality relationships between tenants and the Council - a landlord. This is a core aspect of the interim structure of the Early Intervention and Community Empowerment structure and culture, and allows officers to focus on tenancy sustainment and reducing homelessness
Governance	This continues robust management of the HRA account through the HRA Business Plan, and quarterly reporting to City Growth and Resources Committee
Workforce	The Housing Revenue Account funds management of the estate, aligning with recently adopted Guiding Principles.
Process Design	Housing Revenue Account should be effective in enabling the most efficient method to provide housing to the 22,000 tenancies and maximising the efficiency of the account to provide Best Value.
Technology	Housing Revenue Account priorities should maximise effective use of technology.
Partnerships and Alliances	Housing Revenue Account commissioning intentions and service standards prioritise the opportunity benefit of partnering eg rapid rehousing, Housing 1st.

8 IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	Not required.
Data Protection Impact Assessment	Not required.
Duty of Due Regard / Fairer Scotland Duty	Not applicable.

9 BACKGROUND PAPERS

Bank of England Inflation report: November 2019
Citylets Quarterly report Q3 2019

10 APPENDICES

Appendix 1 Draft Housing Revenue Account 2020/21 -2024/25 Budget

11 REPORT AUTHOR CONTACT DETAILS

Name: Helen Sherrit
Title: Finance Partner
Email Address: hsherrit@aberdeencity.gov.uk
Tel: 01224-346353