

ABERDEEN CITY COUNCIL

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COMMITTEE	Council
DATE	10 February 2011
DIRECTOR	Pete Leonard
TITLE OF REPORT	Draft Housing Revenue Account (HRA) and Housing Capital Budget 2011/12 to 2013/14

REPORT NUMBER:

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1. PURPOSE OF REPORT

- 1.1 To provide elected members with information to allow the setting of the rent level for the financial year 2011/12 as well as provisional rent levels for the financial years 2012/13 and 2013/14. In turn, this will allow a capital programme for 2011/12 to be set as well as a provisional programme for 2012/13 to 2013/14.

2. RECOMMENDATION(S)

- 2.1 It is recommended that the Council consider the draft Housing Revenue Account and -
- a) Consider and determine any adjustments they may wish to make to the draft 2011/12 Housing Revenue Account and thereby
  - b) Determine the average weekly unrebated rents for municipal houses to take effect from Monday 4 April 2011 taking into consideration the Scottish Housing Quality Standard Delivery Plan, the Council House New Build Programme, the outcomes of the 2002 Tenants Referendum and the annual rent consultation;
  - c) Determine the level of revenue contribution to the Housing Capital budget for 2011/12 as well as a provisional contribution for the financial years 2012/13 and 2013/14;
  - d) Determine the level of working balances that should be retained to meet future contingencies;
  - e) Determine the level of miscellaneous rents and service charges, including Heat with Rent;
  - f) Agree to other adjustments Council may wish to make to the draft HRA for the financial years 2011/12 to 2013/14;
  - g) Set a capital programme for the financial year 2011/12 based on the rent strategy adopted as well as indicative level of programme for the financial years 2012/13 and 2013/14; and
  - h) Approve the Housing Revenue Account savings proposals for 2011/12 summarised on page 37 of Appendix 1.

### 3. FINANCIAL IMPLICATIONS

- 3.1 There are audited working balances at 31 March 2010 of £8.388 million. However there are a number of significant expenditure commitments against this figure. It is estimated that the uncommitted balances at 31 March 2011 will be £5.336 million, based on the forecast surplus and known commitments. In developing a rent setting strategy it is important to ensure that adequate working balances exist. It is considered prudent to have a minimum working balance of approximately £3.7 million.

### 4. OTHER IMPLICATIONS

- 4.1 Without proper repairs and maintenance, there is the possibility that the housing stock could fail to meet health and safety regulations.

### 5. BACKGROUND/MAIN ISSUES

- 5.1 The Council is required to give its tenants 28 days notice of any rent change. Further, the Housing (Scotland) Act 2001 requires the Council to consult with tenants on any proposed rent increase. This consultation was in the form of a tenant "questionnaire" on the possible rent increase.

- 5.2 The tenants were asked if the rent policy of inflation + 1% should continue to maintain investment in the housing stock and improve services.

- 5.3 The results are shown **on page 26 of Appendix 1**. The number of tenants who responded and agreed with a rent policy was 76% with 24% against.

- 5.4 If a rent change is to be implemented for 4 April 2011 then in the interests of efficiency and customer care, the administrative process should commence as soon as possible.

- 5.5 Schedule 15 of the Housing (Scotland) Act 1987 requires expenditure in the under noted 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.

- 5.6 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

- 5.7 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 current revenue (CFCR) within the HRA budget will have an impact on the Housing Capital Budget (the “Capital Budget”). This report, therefore, whilst indicating a possible HRA budget also comments on the Capital Budget.
- 5.8 Consideration of the out-turn on the HRA for 2010/11 and the 2011/12 to 2013/14 budget is dealt with in detail in **Appendix 1**. **Based on the annual rent consultation feedback the budgeted figures have assumed a Council house rent increase of 5.7% (RPIX at November of 4.7% +1%).** This equates to an average rental of £65.94 (for 48 weeks), in 2009/10 the average rental was £62.38. Any adjustment to this base assumption is for the Council to determine.
- 5.9 An updated 30 year Housing Revenue Account Business Plan is being worked on and will be presented to a future Housing & Environment Committee and Council.

#### **Projected Out-turn 2010/11**

- 5.10 The current estimated out-turn for the HRA for the financial year 2010/11 shows a balanced budget with increased Capital from current revenue. The main movement relating to this reduced level of spend is the reduction in the level of capital financing charges.

#### **2011/12 Budget – Key Aspects**

##### **Capital Expenditure**

- 5.11 The draft budget for 2011/12 (and 2012/13 to 2013/14) is attached as **Appendix 1** of this report. The budget for 2011/12 (**Appendix 1 – pages 7 and 8**) shows gross expenditure of £75.407 million (this includes a contribution to capital expenditure, referred to as CFCR of £13.925 million) and income of £75.407 million. **This reflects and includes a proposed rent increase of 5.7% based on feedback from the annual tenants consultation.**
- 5.12 The budget includes the capital financing charges to fund a programme of £50.276 million. The details of the potential projects to be included in this programme are contained in **Appendix 1 – Pages 33 to 36**.
- ##### **Miscellaneous Rents**
- 5.13 The budget attached in Appendix 1 also requires the miscellaneous rents and service charges to be set. As way of indication on possible increases, pages 20 to 24 gives indicative increases that Council may wish to consider, along with what these mean as a percentage. **The Council will have to decide on any possible increment to these charges in line with their rent setting strategy.**

### Working Balances

- 5.14 The Head of Finance must be confident that the level of working balances is adequate to meet any unforeseen contingencies during the financial year.
- 5.15 Based on the projected expenditure and income is likely to be generated for 2011/12, this figure should be approximately £3.7 million.

	£'000
<b>MOVEMENT IN WORKING BALANCES</b>	
Working balances as at 1 April 2010	8.388
<i>Less Ear-Marked sums:</i>	3.052
Projected working balance as at 31 March 2011	<u>5.336</u>

- 5.16 In developing a rent setting policy it is important to ensure that there are adequate working balances and it is considered that these should be set at 5% of final gross expenditure.
- 5.17 Subject to final budget approvals minimum balances would be
- |                 |                      |
|-----------------|----------------------|
| £3.770 million  | As at 31 March 2012  |
| £3.856 million  | As at 31 March 2013  |
| £ 3.883 million | As at 31 March 2014. |

### Prudential Code

- 5.18 From 1 April 2004, Councils are required by Regulation to have regard to the Prudential Code (the Code) when carrying out their duties under Part 7 of the Local Government in (Scotland) Act 2003.
- 5.19 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 the rent setting process is £50.276 million. This is attached in **Appendix 1 at Pages 33 to 36.**
- 5.20 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.
- 5.21 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 rents.
- 5.22 If the Council does not invest in maintaining its housing stock it may not be able to comply with the Scottish Housing Quality Standard.

### **2012/13 to 2013/14 Budget**

- 5.23 Included within **Appendix 1** is an outline budget for 2012/13 and 2013/14 including an assumed rent increase of 2.9% in 2012/13 and 3% in 2013/14. There is also an analysis of the management and administration, the repairs and maintenance and capital budgets.
- 5.24 In setting a 3 year rent strategy, Council must pay cognisance to the level of capital investment required to maintain and improve the overall housing conditions available to the citizens of Aberdeen. The Council is required to meet the Scottish Housing Quality Standard by 2015.
- 5.25 Based on the above annual rent increases the level of CFCR generated is £11.712 million and £8.350 million respectively. In order to increase these levels of CFCR and ensure the long term sustainability of the Housing Revenue Account efficiency savings will have to be made in the Housing Revenue Account. No efficiency savings have been currently assumed in any of the three year programmes. However proposals for members consideration are detailed on page 37 in Appendix 1.

### **5.26 Average Rent**

	2010/11	2010/11	% Increase
Average rent	£65.94 (Note 1)	£62.38	5.7

Note 1 This is the average rental assumed in the Draft Budget

- 5.27 Included within Appendix 1 at Page 25 is a list of the average rents of all other local authorities in 2010/11. If the Council approve the rental increase of 5.7% and all other authorities were to maintain their rent at 2010/11 levels Aberdeen City Council's average rent will not be the highest in Scotland, Edinburgh and Highland would have a higher average rental.
- 5.28 A rent variation of 1% to the figures assumed would vary the income by £0.679 million per annum.

### **Savings**

- 5.29 Included within Appendix 1 there is a schedule of savings that can and should be made to reduce controllable costs. These savings have not been built into the base budget for 2011/12 onwards. These savings are part of the continuing drive to ensure that rental income is used effectively, costs are reduced and an increase in efficiency whilst at the same time improving the service.

### **Summary**

- 5.30 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 April 2011 which in turn will allow decisions to be taken on the level of capital investment.

**6. IMPACT**

- 6.1 The City Council will operate within overall financial constraints taking into account recommended accounting practice and policies.
- 6.2 Following approval of the Council's HRA budget notification of the rent increases (including other miscellaneous charges) will be issued to tenants by the Revenue & Benefits Manager, providing 28 days notice, before the 4 April 2011.

**7. BACKGROUND PAPERS**

No Background papers

**8. REPORT AUTHOR DETAILS**

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