

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	9 February 2012
DIRECTOR	Stewart Carruth (Director of Corporate Governance); Pete Leonard (Director of Housing & Environment)
TITLE OF REPORT	Draft Housing Revenue Account (HRA) and Housing Capital Budget 2012/13 to 2013/14
REPORT NUMBER:	CG12/011

1. PURPOSE OF REPORT

- 1.1 To provide elected members with information to allow the setting of the rent level for the financial year 2012/13 as well as provisional rent levels for the financial years 2013/14 and 2014/15. In turn, this will allow a capital programme for 2012/13 as well as a provisional programme for 2013/14 and 2014/15.

2. RECOMMENDATION(S)

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 2012/13 HRA and thereby;
- b. Determine the average weekly unrebated rents for municipal houses to take effect from Monday 2 April 2011 taking into consideration the Scottish 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 2012/13 as well as a provisional contribution for the subsequent two financial years;
- 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 2012/13 to 2014/15; and
- g. Set a capital programme for the financial year 2012/13 based on the rent strategy adopted as well as indicative level of programme for the financial years 2013/14 and 2014/15.

3. FINANCIAL IMPLICATIONS

- 3.1 Given this report is to set the HRA budget for 2012/13 the financial implications are contained within the report.

4. OTHER IMPLICATIONS

- 4.1 Without adequate investment there is the possibility that the housing stock could fail to meet health and safety regulations as well as the Scottish Housing Quality Standard.

5. BACKGROUND/MAIN ISSUES

- 5.1 The Council is required to give its tenants 28 days notice of any change in the level of rent. 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 plus 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 a rent policy was 48% with 29% saying no and 23% don't know.

- 5.4 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.

- 5.5 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.

- 5.6 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. This report, therefore, whilst indicating a possible HRA budget also comments on the Capital Budget.
- 5.7 Consideration of the out-turn on the HRA for 2011/12 and the 2012/13 budget is dealt with in detail in Appendix 1. Based on the annual rent consultation and Council policy the budgeted figures have assumed a Council house rent increase of 6.3% (RPIX at November of 5.3% plus 1%). This equates to an average rental of £69.42 (for 48 weeks), in 2011/12 the average rental is £65.31 which results in an increase of £4.11 per week.
- 5.8 While this is in line with Council policy it is worth noting that at this time the economic climate within the United Kingdom is such that the UK economy continues to struggle to grow, with low confidence, relatively high inflation and high unemployment.
- 5.9 As the UK’s largest export partner, there is significant worry that the ongoing Eurozone uncertainty may have a further negative impact on the UK economy. Europe’s recent financial woes were summed up succinctly by one financial analyst who said “*The patient is in intensive care receiving treatment but the sickness is far from cured*”.
- 5.10 Uncertainty over the Eurozone’s stability continues to affect markets, with speculation increasing that this may eventually end with one or more country having to leave the Euro.
- 5.11 Given the UK Government’s attempts to resolve the economic position it is worth looking at the future projections for inflation in setting the rent increase for 2012/13:

FORECAST						
End period %	18 Jan 2012	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
RPI inflation	4.8	3.4	2.9	1.9	1.6	1.5
RPIX inflation	5.0	3.6	3.0	2.1	1.7	1.6
CPI inflation	4.2	3.1	2.5	1.4	1.1	0.9

Source – Sector Treasury Services – Forecasts (January 2012)

- 5.12 The above table indicates that while we are currently experiencing a relatively high level of inflation it can be seen that this is projected to fall over the coming months.

- 5.13 What the table demonstrates is that RPIX is currently at 5.0%. This is expected to fall by the end of the first quarter of 2012 to 3.6% and continue to fall thereafter. **To illustrate the impact of inflation on the HRA the overall HRA budget has additional cost pressures amounting to 4.4% between 2011/12 and 2012/13.**

The main reason for this increase is the continued level of investment required to achieve the SHQS. There are other factors but the level of CFCR accounts for the majority of this increase.

- 5.14 To put this into context a rent increase of 5.3% (instead of 6.3%) would only result in a loss of income of £700,000 which could be mitigated through an increase in 2013/14 of RPIX plus 2%, an increased level of borrowing, a reduced capital programme, use of working balances or a combination of these.

Given the level of pressure on the HRA is through the level of CFCR an alternative strategy could be proposed by setting a 3 year rent level with 6 monthly reviews. Given the HRA cost base increase is 4.4% a rent increase for the next 3 financial years of 4.4% per annum would leave the HRA in the same position as that attached in Appendix 1.

- 5.15 The reason for examining the future years is that the Council is now in the final stages of completing its 30 Year business plan which demonstrates the long term affordability of maintaining and improving the Council housing stock.
- 5.16 Any major deviances from the rent policy will impact the deliverability of this over the 30 year period. However, given the economic conditions that are facing Council tenants the model can be adapted to ease the level of rent increase for 2012/13.

5.17 Capital Expenditure

The draft budget for 2012/13 (and the subsequent two financial years) is attached as Appendix 1 of this report. This shows gross expenditure of £47 million financed through £23.1 million of borrowing and £18.6 million by way of a revenue contribution to fund the net programme of £41.8 million.

- 5.18 This reflects and includes a proposed rent increase of 6.3%. The details of the potential projects to be included in this programme are contained in Appendix 1 – pages 33 to 36.

5.19 Miscellaneous Rents

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 and decreases 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.**

5.20 Working Balances

The Head of Finance must be confident that the level of working balances is adequate to meet any unforeseen contingencies during the financial year.

- 5.21 Based on the projected income and expenditure that is likely to be generated for 2012/13, this figure should be approximately £3.9 million.

	£'000
MOVEMENT IN WORKING BALANCES	
Working Balances as at 1 April 2011	6,682
Less: Ear marked sums:	(2,363)
Projected Working Balances as at 31 March 2012	<u>4,319</u>

- 5.22 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.

Subject to final budget approvals minimum balances would be:

£3.920 million	As at 31 March 2013
£4.040 million	As at 31 March 2014
£4.160 million	As at 31 March 2015

5.23 Prudential Code

From 1 April 2004, 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.

- 5.24 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 £47.002 million. This is attached in Appendix 1 at pages 33 to 36.
- 5.25 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.
- 5.26 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.

5.27 2013/14 to 2014/15 Budget

Included within Appendix 1 is an indicative budget for 2013/14 and 2014/15 with an assumed rent increase of 3.5% and 3.5% respectively. There is also an analysis of the management and administration, the repairs and maintenance and capital budgets.

5.28 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.

5.29 Summary

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 2 April 2012 which in turn will allow decisions to be taken on the level of capital investment.

6. IMPACT

The City Council will operate within overall financial constraints taking into account recommended accounting practice and policies. Rent increase will be notified to tenants providing them with 28 days notice.

7. BACKGROUND PAPERS

HRA 30 Year Business Plan

9. REPORT AUTHOR DETAILS

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