

ABERDEEN CITY COUNCIL

COMMITTEE	Finance & Resources Committee
DATE	6 December 2012
DIRECTOR	Stewart Carruth (Director of Corporate Governance); Pete Leonard (Director of Housing & Environment)
TITLE OF REPORT	Draft Housing Revenue Account (HRA) Budget and Housing Capital Budget 2013/14 to 2015/16
REPORT NUMBER:	CG/12/1023

1. PURPOSE OF REPORT

- 1.1.1 To provide elected members with information to allow the setting of the rent level for the financial year 2013/14 as well as provisional rent levels for the financial years 2014/15 and 2015/16. In turn, this will allow a capital programme for 2013/14 as well as a provisional programme for 2014/15 and 2015/16.
- 1.1.2 Elected members will be aware that the previous method of charging rent was based on a complicated and historical method. The Council has agreed to replace this methodology with a much simpler method. **As such it is vital that the rent level for 2013/14 is set by Council at its meeting in December to allow officers the time to update computer systems to allow suitable notification of rent levels for 2013/14 to tenants.**

2. RECOMMENDATION(S)

It is recommended that Committee consider the draft Housing Revenue Account Budget and refer it to Council on 19 December 2012 to:

- a. Approve the budget as attached in Appendix 1 of this report;
- b. Approve the weekly unrebated rents for municipal houses, as detailed in Appendix 1 of this report, to take effect from Monday 1 April 2013;
- c. Approve the level of revenue contribution to the Housing Capital budget for 2013/14 as well as a provisional contribution for the subsequent two financial years as detailed in Appendix 1 of this report;
- d. To agree the recommendation by the Head of Finance to increase working balances from 5% to 10% over a 3 year period to meet future contingencies;
- e. To agree the continuation of the practice that all capital receipts, from the disposal of Council houses, continue to be used to repay debt for 2013/14 and future years;

- f. Approve the level of miscellaneous rents and service charges, including Heat with Rent as detailed in Appendix 1 of this report;
- g. Agree to other adjustments Council may wish to make to the draft HRA for the financial years 2013/14 to 2015/16; and
- h. Set a capital programme for the financial year 2013/14 based on the rent strategy adopted as well as the indicative level of programme for the financial years 2014/15 and 2015/16.

3. FINANCIAL IMPLICATIONS

- 3.1 Given this report is to set the HRA budget for 2013/14 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 in order to maintain investment in the housing stock and improve services.
- 5.3 The results are shown on page 23 of Appendix 1. The number of tenants who responded and agreed with this rent policy was 75%, 23% did not agree and 2% did not 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 2012/13 and the 2013/14 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 4.1%** (RPIX at October 2012 of 3.1% plus 1%).
- 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 Euro zone uncertainty may have a further negative impact on the UK economy.
- 5.10 Given the continued Government’s austerity programme spending reductions remain on target although there remains some considerable distance still to travel before they are fully delivered. The cumulative nature of the challenge means that, inevitably, the hardest part of the challenge lies ahead.¹
- 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 2013/14:

FORECAST						
End period %	Oct 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014
RPI inflation	3.2	1.2	1.8	1.2	1.3	1.1
RPIX inflation	3.1	1.2	1.9	1.3	1.3	1.1
CPI inflation	2.7	1.6	2.4	1.7	1.7	1.5

Source – Sector Treasury Services – Forecasts (Oct 2012)

¹ CIPFA: The long downturn: implications for public service organisations

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 next financial year.

5.13 What the table demonstrates is that RPIX is currently at 3.1%. This is expected to fall by the end of the first quarter of 2013 to 1.2% and after an increase in the next quarter remain pretty stable thereafter.

5.14 **Welfare Reform and Working Balances**

The impact of Welfare Reform is at this time unquantifiable but we do need to ensure that adequate working balances are maintained to de-risk the HRA position for future years. There are currently 46% of HRA tenants on full or partial housing benefit. **It is therefore important that the Council begins preparing for the full impact of Welfare Reform.**

The Head of Finance must be confident that the level of working balances is adequate to meet any unforeseen contingencies during the financial year particularly with regard to the introduction of Welfare Reform.

Based on projected income and expenditure that is likely to be generated for 2012/13, this opening figure for 2013/14 should be approximately £3.935 million as detailed below:

MOVEMENT IN WORKING BALANCES	£000
Working Balances as at 1 April 2012	6,682
Less: Ear marked sums	
Housing repairs	(2,172)
Scottish Secure Tenancy	(250)
Finance Lease Liability	(323)
	(2,746)
Projected Working Balances as at 31 March 2013	3,935

Given the inherent uncertainty it is proposed that working balances are increased from 5% to 10% over the 3 year period. This will also allow a buffer against current economic conditions. As such a potential profile of this may look like:

BALANCE AS AT:	CURRENT	REVISED
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	£M	£M
31-03-2012	4.000	4.000
31-03-2013	4.000	4.200
31-03-2014	4.008	5.200
31-03-2015	4.157	6.200
31-03-2016	4.310	7.200
31-03-2017	4.310	8.200

This would be achieved through managing the level of capital investment through additional borrowing. The cost of this would be met through lower investment levels in future years (by virtue of SHQS having been delivered) and future efficiency savings in line with the 30 year business plan.

5.15 **Capital Expenditure**

The draft budget for 2013/14 (and the subsequent two financial years) is attached as Appendix 1 of this report. This shows gross expenditure of £47 million financed through £17.9 million of borrowing, £1.5 million of SEE grant funding and £22.1 million by way of a revenue contribution to fund the net programme of £41.5 million.

5.16 This capital budget reflects and includes a proposed rent increase of 4.1%. The details of the potential projects to be included in this programme are contained in Appendix 1 – pages 30 to 33.

5.17 **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 19 to 22 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.**

5.18 **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.

5.19 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 final rent levels is £46.930 million. This is attached in Appendix 1 at pages 30 to 33.

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 rent.
- 5.22 **2014/15 to 2015/16 Budget**
Included within Appendix 1 is an indicative budget for 2014/15 and 2015/16 with an assumed rent increase of 3.5% for both years. There is also an analysis of the management and administration, the repairs and maintenance and capital budgets.
- 5.23 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.
- 5.24 **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 1 April 2013 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
CIPFA: The long downturn: implications for public service organisations

8. **REPORT AUTHOR DETAILS**

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