

ABERDEEN CITY COUNCIL

COMMITTEE	Finance, Policy & Resources Committee
DATE	5 December 2013
DIRECTOR	Angela Scott (Director of Corporate Governance); Pete Leonard (Director of Housing & Environment)
TITLE OF REPORT	Draft Housing Revenue Account (HRA) Budget and Housing Capital Budget 2014/15 to 2018/19
REPORT NUMBER:	CG/13/117

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 2014/15 as well as provisional rent levels for the financial years 2015/16 to 2018/19. In turn, this will allow a capital programme for 2014/15 as well as a provisional programme for 2015/16 to 2018/19.

2. RECOMMENDATIONS

It is recommended that Committee consider the draft Housing Revenue Account Budget and refer it to Council on 18 December 2013 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 7 April 2014;
- c. Approve the level of revenue contribution to the Housing Capital budget for 2014/15 as well as a provisional contribution for the subsequent four financial years as detailed in Appendix 1 of this report;
- d. To continue to increase the level of working balances to 10% to meet future contingencies;
- e. To agree the continuation of the practice that all capital receipts, from the disposal of Council houses under right to buy, continue to be used to repay debt for 2014/15 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. Set a capital programme for the financial year 2014/15 based on the rent strategy adopted as well as the indicative level of programme for the financial years 2015/16 and 2018/19;

- h. In order for work to commence on the capital programme approves as estimated expenditure in terms of Standing Order 1(3) (of the Council's Standing Orders relating to Contracts and Procurement) the sums shown against each heading of the Housing Capital Expenditure budget set out in Appendix 1 to this report; and
- i. Authorises the Director of Housing and Environment to undertake or instruct appropriate procedures to procure the works referred to in Appendix 1 for the capital programme and award contracts relating thereto.

3. FINANCIAL IMPLICATIONS

- 3.1 The HRA for the first time this year has been included in the Priority Based Budgeting Process (PBB) in order to provide an alignment in decision making, strengthen the links to the Smarter City Objectives, maximizing the effective use of the HRA funding to benefit the tenants and provide the best possible property management services.
- 3.2 Following discussions with Housing & Environment, a number of potential service options were put forward which included reviewing the emergency cover provided by Building Services and the Grounds Maintenance contract, strengthening the links between Social Care & Wellbeing and the aids and adaptation budgets, reducing the level of voids & arrears.
- 3.3 Moving forward the aim is to strengthen the PBB process within the HRA business planning cycle and integrate the process fully with the 30 year business plan.
- 3.4 Given this report is to set the HRA budget for 2014/15 the financial implications are contained within the report and the attached Appendix 1.

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.
- 4.2 The Scottish Government has issued consultative draft guidance on the operation of the Local Authority Housing Revenue Account in Scotland. It is currently being monitored and will be dealt with accordingly when more information becomes available but is likely to include, for example, the review of the Grounds Maintenance contract.

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 22 of Appendix 1. The number of tenants who responded and agreed with this rent policy was 73% with 27% not agreeing.
- 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 proposed HRA Budget, also provides information on the Capital Budget.
- 5.7 Consideration of the out-turn on the HRA for 2013/14 and the 2014/15 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 4.2%** (RPIX at September 2013 of 3.2% plus 1%).

- 5.8 In the UK, the recovery now looks to be underway, however the prospects for the UK economy are being affected by the past developments left by the financial crisis which means the recovery is likely to remain weak by historical standards.
- 5.9 The Bank of England believes that there will a sustained recovery in both demand and supply with inflation expected to fall back to around the 2% target.
- 5.10 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 %	Nov 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
RPI inflation	3.1	2.9	2.6	2.9	2.3	2.3
RPIX inflation	3.2	2.9	2.6	2.8	2.3	2.2
CPI inflation	2.8	2.3	2.0	2.3	1.7	1.6

Source – Capital Economics – Forecasts (Nov 2013)

- 5.11 The above table indicates that inflation is not expected to fall significantly until Quarter 4 in 2014, closer to the Bank of England's target of 2%.

5.12 **Welfare Reform and Working Balances**

The full impact of Welfare Reform has not been felt and it is unclear when Universal Credit will be rolled out. In addition many tenants are currently being sheltered from the effect of the Welfare Reforms today by the use of Discretionary Housing Payments. It is anticipated that Universal Credit will have the most impact on the HRA as benefits will be paid directly to the tenant monthly instead of to the Council weekly. Therefore as the risk remains unquantifiable the need for adequate working balances remains 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 continues to prepare 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 2013/14, this opening figure for 2014/15 should be approximately £5.5 million as detailed below:

MOVEMENT IN WORKING BALANCES		£000
Working Balances as at 1 April 2013		7,958
Less: Ear marked sums (2012/13)		
Housing repairs	(1,617)	
House Sales – Non RTB	(57)	
Land Transfer	(305)	
Finance Lease Liability	(454)	(2,433)
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Projected Uncommitted Working Balances		5,525
13/14 Contribution to the Working Balance		1,000
Projected Uncommitted Working Balances as at 31 March 2014		6,525
14/15 Contribution to the Working Balance		1,000
Projected Uncommitted Working Balance as at 31 March 2015		7,525

Given the continued inherent uncertainty it is proposed the Council continues to work towards increasing the working balance to 10% over the 2 year period as demonstrated in the table above.

5.13 **Capital Expenditure**

The draft budget for 2014/15 (and the subsequent four financial years) is attached as Appendix 1 of this report. This shows gross expenditure of £47 million financed through £19 million of borrowing and £22 million by way of a revenue contribution to fund the net programme of £41.7 million.

5.14 This capital budget reflects and includes a proposed rent increase of 4.2%. The details of the potential projects to be included in this programme are contained in Appendix 1 – pages 27 to 30.

5.15 **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 21 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.**

5.16 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.

5.17 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 million. This is attached in Appendix 1 at pages 23 to 30.

5.18 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.

5.19 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.

5.20 2015/16 to 2018/19 Budget

Included within Appendix 1 is an indicative budget for 2015/16 to 2018/19 with an assumed rent increase of 3.5% for all years. There is also an analysis of the management and administration, the repairs and maintenance and capital budgets.

5.21 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.

5.22 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 7 April 2014 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. MANAGEMENT OF RISK

Risk is being managed through the increase of working balances as detailed in 5.12.

8. BACKGROUND PAPERS

HRA 30 Year Business Plan
Bank of England Inflation report: August 2013

9. REPORT AUTHOR DETAILS

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