

ABERDEEN CITY COUNCIL

COMMITTEE:	Council
DATE:	11 February 2010
REPORT BY:	Director and City Chamberlain
TITLE OF REPORT:	Draft Housing Revenue Account (HRA) and Housing Capital Budget 2010/11 to 2012/13
REPORT NUMBER:	CG/10/037

1. PURPOSE OF REPORT

- 1.1 To provide elected members with information to allow the setting of the rent level for the financial year 2010/11 as well as provisional rent levels for the financial years 2011/12 and 2012/13. In turn, this will allow a capital programme for 2010/11 to be set as well as a provisional programme for 2011/12 to 2012/13.

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 2010/11 Housing Revenue Account and thereby
 - b) Determine the average weekly unrebated rents for municipal houses to take effect from Monday 5 April 2010 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 2010/11 as well as a provisional contribution for the financial years 2011/12 and 2012/13;
 - 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 2010/11 to 2012/13;
 - g) Set a capital programme for the financial year 2010/11 based on the rent strategy adopted as well as indicative level of programme for the financial years 2011/12 and 2012/13; and

- h) Approve the Housing Revenue Account savings proposals for 2010/11 summarised on page 40 of Appendix 1.

3. FINANCIAL IMPLICATIONS

- 3.1 There are audited working balances at 31 March 2009 of £6.491 million. However there are a number of significant expenditure commitments against this figure. It is estimated that the uncommitted balances at 31 March 2010 will be £5.135 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 £3.5 million.

4. SERVICE & COMMUNITY IMPACT

- 4.1 The City Council will operate within overall financial constraints taking into account recommended accounting practice and policies.
- 4.2 Following approval of the Council's HRA budget notification of the rent increases (including other miscellaneous charges) will be issued to tenants by the Head of Customer Service and Performance, providing 28 days notice, before the 5 April 2010.

5. OTHER IMPLICATIONS

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

6. REPORT

Background

- 6.1 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.
- 6.2 The tenants were asked if the rent policy of inflation + 1% should continue to maintain investment in the housing stock and improve services.
- 6.3 The results are shown **on page 28 of Appendix 1**. The number of tenants who responded and agreed with a rent policy was 78% with 21% against.

- 6.4 If a rent change is to be implemented for 5 April 2010 then in the interests of efficiency and customer care, the administrative process should commence as soon as possible.
- 6.5 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 and care taking wages.
- 6.6 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
- 6.7 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.
- 6.8 Consideration of the out-turn on the HRA for 2009/10 and the 2010/11 to 2012/13 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 2.3% (RPIX at September of 1.3% +1%)**. This equates to an average rental of £62.38 (for 48 weeks), in 2009/10 the average rental was £60.98. Any adjustment to this base assumption is for the Council to determine.
- Projected Out-turn 2009/10**
- 6.9 The current estimated out-turn for the HRA for the financial year 2009/10 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.

2010/11 Budget – Key Aspects

Capital Expenditure

- 6.10 The draft budget for 2010/11 (and 2011/12 to 2012/13) is attached as **Appendix 1** of this report. The budget for 2010/11 (**Appendix 1 – pages 9 and 10**) shows gross expenditure of £70.095 million (this includes a contribution to capital expenditure, referred to as CFCR of £12.753 million) and income of £70.095 million. **This reflects and includes a proposed rent increase of 2.3% based on feedback from the annual tenants consultation.**
- 6.11 The budget includes the capital financing charges to fund a programme of £54.847 million. The details of the potential projects to be included in this programme are contained in **Appendix 1 – Pages 35 to 38**.

Miscellaneous Rents

- 6.12 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 22 to 26 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

- 6.13 The City Chamberlain must be confident that the level of working balances is adequate to meet any unforeseen contingencies during the financial year.
- 6.14 Based on the projected expenditure and income is likely to be generated for 2009/10, this figure should be approximately £5.135 million.

<u>MOVEMENT IN WORKING BALANCES</u>	£'000
Working balances as at 1 April 2009	6,491
<i>Less Ear-Marked sums:</i>	<i>(1,356)</i>
Projected working balance as at 31 March 2010	<u>5,135</u>

- 6.15 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.

6.16 Subject to final budget approvals minimum balances would be

£3.505 million	As at 31 March 2011
£3.524 million	As at 31 March 2012
£ 3.537 million	As at 31 March 2013.

Prudential Code

6.17 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.

6.18 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 £54.847 million. This is attached in **Appendix 1 at Pages 35 to 38.**

6.19 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.

6.20 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.

6.21 If the Council does not invest in maintaining its housing stock it may not be able to comply with the Scottish Housing Quality Standard.

2011/12 to 2012/13 Budget

6.22 Included within **Appendix 1** is an outline budget for 2011/12 and 2012/13 including an assumed rent increase of 1.5% in 2011/12 and 1.3% in 2012/13. There is also an analysis of the management and administration, the repairs and maintenance and capital budgets.

6.23 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.

6.24 Based on the above annual rent increases the level of CFCR generated is £10.446 million and £8.558 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 pages 40 to 49 in Appendix 1.

6.25 **Average Rent**

	2010/11	2009/10	% Increase
Average rent	£62.38 (Note 1)	£60.98	2.3

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

6.26 Included within Appendix 1 at Page 27 is a list of the average rents of all other local authorities in 2009/10. If the Council approve the rental increase of 2.3% and all other authorities were to maintain their rent at 2009/10 levels Aberdeen City Council's average rent will not be the highest in Scotland Edinburgh, Renfrewshire and Highland would have a higher average rental.

6.27 A rent variation of £1 to the figures assumed would vary the income by £1.067 million per annum.

Savings

6.28 Included within Appendix 1 at Page 39 is a list of controllable costs and at Page 40 to 49 there is a schedule of savings that can and should be made to reduce controllable costs. These savings have not built into the base budget for 2010/11 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

6.29 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 5 April 2010 which in turn will allow decisions to be taken on the level of capital investment.

7. AUTHORISED SIGNATURE

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9. BACKGROUND PAPERS

Sector Weedon Grant Interest Rate Outlook 2009/10 issued in October 2009.