

ABERDEEN CITY COUNCIL

COMMITTEE	Finance, Policy & Resources Committee
DATE	3 December 2015
DIRECTOR	Richard Ellis (Interim Director of Corporate Governance); Pete Leonard (Director of Communities, Housing & Infrastructure)
TITLE OF REPORT	Draft Housing Revenue Account (HRA) Budget and Housing Capital Budget 2016/17 to 2020/21
REPORT NUMBER:	CG/15/145

1. PURPOSE OF REPORT

To provide elected members with information to allow the setting of the rent level for the financial year 2016/17 as well as provisional rent levels for the financial years 2017/18 to 2020/21. In turn, this will allow a capital programme for 2016/17 as well as a provisional programme for 2017/18 to 2020/21.

2. RECOMMENDATIONS

It is recommended that Committee consider the draft Housing Revenue Account Budget and refer it to Council on 16 December 2015 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 4 April 2016;
- c. Approve the level of revenue contribution to the Housing Capital budget for 2016/17 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 2016/17 and future years where applicable;
- 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 2016/17 based on the rent strategy adopted as well as the indicative level of programme for the financial years 2017/18 and 2020/21;

- 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 Communities, Housing and Infrastructure 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 Voids and rent arrears continue to be the main cost pressures to the HRA.
- 3.2 Given that the purpose of this report is to set the HRA budget for 2016/17 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 and Energy Efficiency for Social Housing Standards.
- 4.2 Work is ongoing to ensure the Council operates within the guidance issued by the Scottish Government for Local Authority Housing Revenue Account in Scotland in February 2014. The purpose of this guidance is to consolidate information on the role of the HRA: how it must operate; who the resources contained within it are meant to benefit; and what outcomes can be expected from these resources.
- 4.3 The Council has reviewed and documented internal costs charged to the HRA. Work is ongoing to review the treatment of the Building Services surplus and all non residential assets held on the HRA to ensure compliance with the guidance.
- 4.4 This will be the final year of the current rental policy of RPIX +1%, therefore all rental assumptions from 2017/18 onwards will be subject to change. Tenants are to be consulted on a future policy which will consider expenditure priorities, stock condition, cost pressures as well as the appropriate indices to be used.

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 Council rents should increase by RPIX + 1% for 2016/17 (at the date of publishing the consultation document this was 2.1%). The results are shown on page 18 of Appendix 1, 3,212 tenants responded, this equates to 14.5% of all tenants, 65% disagreed with the rental increase with 35% agreeing.
- 5.3 Schedule 15 of the Housing (Scotland) Act 1987 requires expenditure in the following 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.
- 5.4 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.
- 5.5 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.
- 5.6 Consideration of the out-turn on the HRA for 2015/16 and the 2016/17 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 1.9%** (RPIX at September 2015 of 0.9% plus 1%).

- 5.7 In the UK, the short term outlook for inflation is muted and the falls in energy prices are expected to continue until the middle of 2016. The Bank of England inflation target remains at 2%.
- 5.8 It is worth looking at the future projections for inflation in setting the rent increase for 2016/17:

FORECAST						
End period %	Oct 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
RPI inflation	1.0	1.1	1.9	2.0	2.1	2.5
RPIX inflation	1.1	1.3	1.9	2.0	2.0	2.4
CPI inflation	0	0.1	0.8	1.0	1.1	1.5

Source – Capital Economics – Forecasts (Oct 2015)

- 5.9 The above table indicates that inflation is expected to increase to 1.1% in Q4 2015 and to increase in Q2 2016 to 2%, therefore the same as the Bank of England's target of 2%.

5.10 **Welfare Reform and Working Balances**

The full impact of Welfare Reform has not been felt and it is expected Universal Credit will be rolled out in November 2015 in Aberdeen. Tenants have continued to be sheltered from the effect of the Welfare Reforms today by the use of Discretionary Housing Payments.

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 2015/16, this opening figure for 2016/17 should be approximately £8.4 million as detailed below:

MOVEMENT IN WORKING BALANCES	£000
Working Balances as at 1 April 2015	9,808
Less: Earmarked sums (2014/15)	
Housing repairs	(1,206)
House Sales – Non RTB	(245)
Land Transfer	(305)
Finance Lease Liability	(645)
	(2,401)
Projected Uncommitted Working Balances 1 April 2015	7,407
15/16 Contribution to the Working Balance	1,000
Projected Uncommitted Working Balances as at 31 March 2016	8,407
16/17 Contribution to the Working Balance	500
Projected Uncommitted Working Balance as at 31 March 2017	8,907

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

5.11 **Capital Expenditure**

The draft budget for 2016/17 (and the subsequent four financial years) is attached as Appendix 1 of this report. This shows gross expenditure of £48.8m financed by £15m of borrowing, Scottish Government Grant for New Build of £4.7m and £23.8m by way of a revenue contribution to fund the net programme of £43.5m.

5.12 This capital budget reflects and includes a proposed rent increase of 1.9%. The details of the potential projects to be included in this programme are contained in Appendix 1 – pages 23 to 25.

5.13 **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, page 16 gives indicative increases 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.**

5.14 Prudential Code

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.

5.15 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 £48.8m. This is attached in Appendix 1 at pages 23 to 25.

5.16 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.

5.17 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.

5.18 2017/18 to 2020/21 Budget

Included within Appendix 1 is an indicative budget for 2016/17 to 2020/21 with an assumed rent increase of 3.5% for all years, this will be subject to change following the review of the rental strategy. There is also an analysis of the management and administration, the repairs and maintenance and capital budgets.

5.19 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.

5.20 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 4 April 2016 which in turn will allow decisions to be taken on the level of capital investment.

6. IMPACT

Improving Customer Experience –

Accurate budget monitoring and forecasting assists the Council to plan and design our services around current and future customer needs as much as possible. Housing Revenue Account delivers affordable rents to the tenants.

Improving Staff Experience –

Good financial information improves good financial management and helps to track how successful management initiatives, such as service redesign, have been.

Improving our use of Resources –

As a public sector organisation, the Council has a legal duty to be open, transparent and accountable for spending public funds also ensuring best value.

Corporate -

Aberdeen the Smarter City:

Smarter Governance (Participation)

Accurate budget monitoring and forecasting contributes to the process of Smarter Governance.

Smarter Living (Quality of Life)

Housing Revenue Account delivers the priority 'tenants have a dry, warm home in a safe and enjoyable environment'.

Public –

The Council has a duty to ensure that best value is considered in all of its operations and this report helps to inform that process.

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 2015

9. REPORT AUTHOR DETAILS

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