

ABERDEEN CITY COUNCIL

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COMMITTEE	Council
DATE	22 February 2017
DIRECTOR	Richard Ellis (Interim Director of Corporate Governance) Bernadette Marjoram (Interim Director of Communities, Housing and Infrastructure)
TITLE OF REPORT	Draft Housing Revenue Account (HRA) Budget and Housing Capital Budget 2017/18 to 2021/22
REPORT NUMBER	CG/17/032
CHECKLIST COMPLETED	Yes

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**1. PURPOSE OF REPORT**

To provide elected members with information to allow the setting of the rent level for the financial year 2017/18 as well as provisional rent levels for the financial years 2018/19 to 2021/22. In turn, this will allow a capital programme for 2017/18 as well as a provisional programme for 2018/19 to 2021/22.

**PLEASE NOTE THAT THIS REPORT SHOULD BE READ IN CONJUNCTION WITH THE GENERAL FUND REVENUE BUDGET 2017/18 TO 2021/22 AND NON-HOUSING CAPITAL PROGRAMME 2017/18 TO 2021/22 WITH SPECIFIC REFERENCE TO:**

- **CREDIT RATING**
- **BALANCE SHEET POSITION**
- **LONG TERM FINANCIAL POSITION**

**2. RECOMMENDATIONS**

It is recommended that Council:

- 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 3 April 2017;
- c. Approve the level of revenue contribution to the Housing Capital budget for 2017/18 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 ensure a minimum of 10% is maintained to meet future contingencies;

- e. Approve the level of miscellaneous rents and service charges, including Heat with Rent as detailed in Appendix 1 of this report;
- f. Set a capital programme for the financial year 2017/18 based on the rent strategy adopted as well as the indicative level of programme for the financial years 2018/19 and 2021/22;
- g. 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
- h. 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 2017/18 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 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 Communities, Housing and Infrastructure Committee on 1 November 2016 agreed a rental policy of inflation +1% for three years, inflation as at July of the preceding year.

### **5. BACKGROUND/MAIN ISSUES 2016/17 Out-Turn Position**

- 5.1 In looking at the position for the next financial year it is useful to put into context the financial estimates for the current financial year. More detail can be found in Appendix 1 of this report.

5.2 The report outlines that the Housing Revenue Account forecasts a capital from current revenue (CFCR) contribution of £23,959m and £500k towards the working balance will be made in 2016/17 which is broadly in line with the 2016/17 budget.

5.3 The HRA budget has been aligned with the 30 year Business Plan.

### **Institutional Framework**

5.4 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.

5.5 The tenants were asked if Council rents should increase by RPI + 1% for 2017/18 (July RPI 1.9%). The results are shown on page 18 of Appendix 1, 2,974 tenants responded, this equates to 13.5% of all tenants, 56% agreed with the rental increase with 41% disagreeing.

5.6 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.

5.7 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.

5.8 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 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.

### 5.9 **Summary 5 Year Position**

Included within Appendix 1 is an indicative budget for 2018/19 to 2021/22 with an assumed rent increase of 3% for all years, it has been assumed that the rental strategy will continue beyond the three years agreed. There is also an analysis of the management and administration, the repairs and maintenance and capital budgets.

5.10 In setting a 5 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.

### **Underlying Strategy**

5.11 Based on the annual rent consultation and Council policy the budgeted figures have assumed a Council house rent increase of 2.9% (RPI at July 2016 of 1.9% plus 1%).

5.12 The 30 year Business Plan assumes RPI of 2% plus 1%.

5.13 In the UK, inflation will depend on how demand, supply and the exchange rate adjust following the vote to leave the European Union. The forecast does not fall back to the target of 2% inflation until the second half of the Bank of England's 3 year forecast.

5.14 It is worth looking at the future projections for inflation in setting the rent increase for 2017/18:

FORECAST						
End period %	Dec 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
	2.016					2.017
RPI inflation	2.2	2.4	2.7	2.7	3.0	3.0
RPIX inflation	2.5	2.7	2.9	3.0	3.2	3.1
CPI inflation	1.2	1.4	1.9	2.1	2.4	2.4

Source – Capital Economics – Forecasts (Dec 2016)

5.15 The above table indicates that inflation is expected to increase to 2.7% in Q1 2017 and to increase in Q3 2017 to 3%, therefore higher than the Bank of England's target of 2%.

## **Housing Market Overview**

5.16 The Housing Needs Demand Assessment (HNDA) is currently being updated by Aberdeenshire Council, Aberdeen City Council and the Aberdeen City and Shire Strategic Development Planning Authority. A draft HNDA provided a calculation for the number of additional affordable housing units required to meet the need for affordable housing. To meet this requirement an annual need for an additional 415 affordable units has been assessed over a 10 year period.

5.17 **Buying/Selling of Property**  
Aberdeen Solicitors Property Centre have indicated that the annual house price change in Aberdeen City and suburbs has fallen 9.8 %. The economic downturn in Aberdeen is reflected in the housing market with the volume of sales running just above 70% of the level of previous years although, encouragingly, the third quarter showed a small increase (2.7%) over the second quarter. However the market is still functioning with purchasers benefiting from low interest rates and builders offering incentives. There are some signs that the oil industry is beginning to move beyond cutting and more towards continuing.

5.18 **Rental Market**  
Average rents in the Aberdeen city stand at £790 per month, down 15.4% year on year at quarter 4 in 2016. It is likely that rents in Aberdeen will hit national average later in 2017. The average property in Aberdeen currently takes 52 days to let, up 6 days on last year and further evidence of a market settling at a new level.

It is believed that the Aberdeen rental market has passed the worst with minor falls anticipated in the average rentals during the first half of 2017.

Council house dwelling remains the largest rental provider in the city this can be seen from the following split of the rental market at the end of December 2016– Council Housing 50%, Private Landlords 36%, Other social rented 10% and Other 4%.

The current demand for Council housing is borne out by the housing advice enquires in April to December of 3,842. The Council House waiting list currently is 6,542. Therefore is still an option for many with Registered Social Landlords currently struggling to let new mid market rental properties.

## 5.19 **Reserves & Risk**

The full impact of Welfare Reform has not been felt 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 2016/17, this opening figure for 2017/18 should be approximately £9.8 million as detailed below:

<b>MOVEMENT IN WORKING BALANCES</b>	<b>£000</b>
Working Balances as at 1 April 2016	10,808
Less: Earmarked sums (2015/16)	
Housing repairs	(1,193)
House Sales – Non RTB	( 245)
	(1,438)
Projected Uncommitted Working Balances 1 April 2016	9,370
16/17 Contribution to the Working Balance	500
Projected Uncommitted Working Balances as at 31 March 2017	9,870
17/18 Contribution to the Working Balance	500
Projected Uncommitted Working Balance as at 31 March 2018	10,370

**In being prudent it is proposed the Council continues to work towards increasing the working balance to a minimum of 10% over the next year as demonstrated in the table above.**

#### 5.20 **Capital Expenditure**

The draft budget for 2017/18 (and the subsequent four financial years) is attached as Appendix 1 of this report. This shows gross expenditure of £62m financed by £31m of borrowing and £24m by way of a revenue contribution to fund the net programme of £55m.

5.21 This capital budget reflects and includes a proposed rent increase of 2.9%. The details of the potential projects to be included in this programme are contained in Appendix 1 – pages 23 to 25.

#### 5.22 **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.**

### 5.23 **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.

5.24 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 £55.3m. This is attached in Appendix 1 at pages 23 to 25.

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 **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 3 April 2017 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 primarily being managed through the increase of working balances as detailed in 5.12.

**8. BACKGROUND PAPERS**

HRA 30 Year Business Plan

**9. REPORT AUTHOR DETAILS**

Helen Sherrit  
Finance Partner (Communities, Housing and Infrastructure)  
hsherrit@aberdeencity.gov.uk  
01224 346353