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| COMMITTEE | Council |
| DATE | 6 March 2018 |
| REPORT TITLE | Draft Housing Revenue Account (HRA) Budget and Housing Capital Budget 2018/19 to 2022/23 |
| REPORT NUMBER | CG/18/030 |
| DIRECTOR | Steven Whyte |
| REPORT AUTHOR | Helen Sherrit |

1. PURPOSE OF REPORT:-

To provide elected members with information to allow the setting of the rent level for the financial year 2018/19 as well as provisional rent levels for the financial years 2019/20 to 2022/23. In turn, this will allow a capital programme for 2018/19 as well as a provisional programme for 2019/20 to 2022/23.

2. RECOMMENDATION(S)

It is recommended that Council:

- a) Approve the budget as attached in Appendix 1 (Pages 5 to 6) of this report;
- b) Approve the setting of the weekly unrebated rents for municipal houses, as detailed in Appendix 1 (Pages 5 to 6) of this report, to take effect from Monday 30 April 2018;
- c) Approve the level of revenue contribution to the Housing Capital budget for 2018/19 as well as a provisional contribution for the subsequent four financial years as detailed in Appendix 1 (pages 19 to 20) of this report;
- d) Approve the proposal to maintain the working balances at 10% to meet future contingencies as detailed in Appendix 1 (pages 5 to 6) of this report;
- e) Approve the level of miscellaneous rents and service charges, including Heat with Rent as detailed in Appendix 1 (pages 16 to 17) of this report;
- f) Approve, based on the rent strategy adopted the capital programme for the financial year 2018/19 (Appendix 1 pages 23 to 26);
- g) Note the indicative level of programme for the financial years 2019/20 to 2022/23 (Appendix 1 pages 23 to 26);
- h) Approve as estimated expenditure in terms of the Procurement Regulation 4.1.1, in order for work to commence on the capital programme, the sums shown against each heading of the Housing Capital Expenditure budget for the financial year 2018/19 set out in Appendix 1 (pages 23 to 26) to this report without the need for separate Committee approval of each;

- i) Delegates authority to the Director of Resources, following consultation with the Head of Commercial and Procurement Services, to undertake or instruct appropriate procedures in accordance with the ACC Procurement Regulations to procure the works referred to in Appendix 1 (pages 23 to 26) for the capital programme for the financial year 2018/19 and award contracts relating thereto; and
- j) Instruct the Director of Resources to finalise the Housing Business Plan on completion of the Asset Management Plan and present to the relevant future committee.

3. BACKGROUND/MAIN ISSUES

2017/18 Out-Turn Position

- 3.1 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.
- 3.2 The report outlines that the Housing Revenue Account forecasts a capital from current revenue (CFCR) contribution of £22m and £500k towards the working balance will be made in 2017/18 which is broadly in line with the 2017/18 budget.
- 3.3 The HRA budget has been aligned with the 30 year Business Plan.

Institutional Framework

- 3.4 The Council is required to give its tenants 28 days notice of any change in the level of rent. With the decision on rent levels being taken on 6 March 2018 taking account of the various system amendments required, the change in rent levels will start on 30 April 2018. 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.
- 3.5 The tenants were asked if Council rents should increase by RPI + 1% for 2018/19 (July RPI 3.6%). The results are shown on page 18 of Appendix 1, 2,492 tenants responded, this equates to 12% of all tenants, 37% agreed with the rental increase with 63% disagreeing.
- 3.6 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.
- 3.7 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.

3.8 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.

Summary 5 Year Position

3.9 Included within Appendix 1 is an indicative budget for 2019/20 to 2022/23 with an assumed rent increase of 3% for all years based on the 30 year business plan assumptions. There is also an analysis of the management and administration, the repairs and maintenance and capital budgets.

3.10 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

3.11 Based on Council policy the budgeted figures have assumed a Council house rent increase of 4.6% (RPI at July 2017 of 3.6% plus 1%).

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

3.13 In the UK, inflation is projected to remain slightly above the 2% target at the 3 year point. This is based on the expectation of a smooth adjustment to the new trading relationship with the EU.

3.14 It is worth looking at the future projections for inflation in setting the rent increase for 2018/19:

| End period % | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
|----------------|------------|------------|------------|------------|------------|
| RPI inflation | 3.9 | 3.8 | 3.8 | 3.8 | 3.7 |
| RPIX inflation | 3.9 | 3.7 | 3.5 | 3.3 | 3.0 |
| CPI inflation | 2.9 | 2.8 | 2.6 | 2.4 | 2.3 |

Source – Capital Economics – Forecasts (Dec 2017)

3.15 The above table indicates that inflation is expected to decrease to 3.8% in Q1 2018 and further reduce in Q4 2018 to 3.7%, therefore higher than the Bank of England’s target of 2%.

Housing Market Overview

3.16 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. The current 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. This figure has however been reviewed in light of the revised HNDA and Local Housing Strategy 2018 – 2023. The indicative affordable housing requirement is 423 in 2018/19 and 2019/20 and is 425 for 2020/21, 2021/22 and 2022/23. This figure is however subject to final approval of the Main Issues Report in March 2019.

Buying/Selling of Property

- 3.17 Aberdeen Solicitors Property Centre indicate that the market reached its bottom in 2016 in Aberdeen City and suburbs, however improvements are not occurring quickly. There has been a slight increase in both volume of sales and total value of sales during the year. It is anticipated any improvements will be modest and may take several years to occur.

Rental Market

- 3.18 Average rents in the Aberdeen city stand at £755 per month (£790 per month in 2016), down 4.3% year on year at quarter 4 in 2017. It is likely that rents in Aberdeen will fully level off in 2018. Rents are still above the national level. The average property in Aberdeen currently takes 50 days to let, down 2 days on last year and further evidence of a market settling at a new level.
- 3.19 Therefore, it is believed there will be stability in the Aberdeen rental market in 2018 with a better balance of supply and demand which should lead to a slow recovery of rental values.
- 3.20 The current demand for Council housing is borne out by the housing advice enquires in April to December of 1,960. The Council House waiting list currently is 6,368. Therefore is still an option for many and demand is the highest for 1 bed properties.

Reserves & Risk

- 3.21 The full impact of Welfare Reform has not been felt and it is expected Universal Credit will be rolled out in November 2018 in Aberdeen. Tenants have continued to be sheltered from the effect of the Welfare Reforms to date by the use of Discretionary Housing Payments.
- 3.22 The Chief Officer - 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.
- 3.23 Based on projected income and expenditure that is likely to be generated for 2017/18, this opening figure for 2018/19 should be approximately £10.2 million as detailed below:

| MOVEMENT IN WORKING BALANCES | | £000 |
|--|---------|-------------|
| Working Balances as at 1 April 2017 | | 11,308 |
| Less: Earmarked sums (2017/18) | | |
| Housing repairs | (1,326) | |
| House Sales – Non RTB | (245) | (1,571) |
| <hr/> | | |
| Projected Uncommitted Working Balances 1 April 2017 | | 9,737 |
| <hr/> | | |
| 17/18 Contribution to the Working Balance | | 500 |
| <hr/> | | |
| Projected Uncommitted Working Balances as at 31 March 2018 | | 10,237 |
| <hr/> | | |
| 18/19 Contribution to the Working Balance | | 500 |
| <hr/> | | |
| Projected Uncommitted Working Balance as at 31 March 2019 | | 10,737 |

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

Capital Expenditure

- 3.24 The draft budget for 2018/19 (and the subsequent four financial years) is attached as Appendix 1 of this report. This shows gross expenditure of £47m financed by £20m of borrowing and £22m by way of a revenue contribution to fund the net programme of £42m.
- 3.25 This capital budget reflects and includes a proposed rent increase of 4.6%. The details of the potential projects to be included in this programme are contained in Appendix 1 – pages 23 to 25.

Miscellaneous Rents

- 3.26 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.**

Prudential Code

- 3.27 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.
- 3.28 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 £42m. This is attached in Appendix 1 at pages 23 to 25.

- 3.29 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.
- 3.30 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.
- 3.31 The Council's Prudential Indicators are included within the General Fund report which is also included on this agenda

Business Plan

- 3.32 During 2017/18 work has been undertaken on Housing Business Plan, this will set out Aberdeen City Council's plans for managing and maintaining its housing stock of over 22,000 rented properties held in the Housing Revenue Account (HRA). It also addresses how the fund will be managed to ensure maximum value is achieved throughout the projected 30 year cycle. The fundamental purpose will therefore be to demonstrate and ensure the efficient use of the Authority's housing assets and rental income. The Business Plan is designed to set out the strategic goals of the Council's Housing Service and measure progress toward achieving these goals, and provides a realistic appraisal of how these strategic goals will be achieved within the limitations of available funding and the predicted economic climate.
- 3.33 Following completion of the Asset Management Plan in March the Housing Business Plan will be completed and presented to a future committee.

Summary

- 3.34 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 30 April 2018 which in turn will allow decisions to be taken on the level of capital investment.

4. FINANCIAL IMPLICATIONS

- 4.1 Voids, rent arrears and repairs and maintenance continue to be the main cost pressures to the HRA.
- 4.2 Given that the purpose of this report is to set the HRA budget for 2018/19 the financial implications are contained within the report and the attached Appendix 1.

5. LEGAL IMPLICATIONS

No direct legal implications.

6. MANAGEMENT OF RISK

Financial

6.1 Every organisation has to manage the financial risks inherent in the operation of large and complex budgets. These risks are minimised by the regular review of financial information by services and corporately by Elected Members.

6.2 Other

Consideration has also been given to Employee, Customer/Citizen, Environmental, Technological and Legal risk, and no risks were identified.

Reputational

6.3 The reputational risks to the Council are minimised by the regular review of financial information by services, CMT and Elected members throughout the Financial Year.

7. IMPACT SECTION

Economy

7.1 Funding the Housing Capital Programme will have a positive impact on the economy.

People

7.2 Robust management of the council's finances will ensure that Housing services can continue to be provided.

Place

7.3 Funding will enhance the place by creating a better and more vibrant city in which to live.

Technology

7.4 There are no direct implications on technology arising from the recommendations of this report

8. BACKGROUND PAPERS

HRA 30 Year Business Plan
Bank of England November 17 Inflation report
Citylets Quarterly report Q4 2017
Aberdeen Solicitors Property Centre

9. APPENDICES (if applicable)

Appendix 1 Draft Housing Revenue Account 2018/19 -2022/23 Budget

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