

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	10 March 2021
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Housing Revenue Account Budget 2021/22
REPORT NUMBER	RES/21/056
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Helen Sherrit
TERMS OF REFERENCE	2

1. PURPOSE OF REPORT

- 1.1 To provide elected members with information to enable the Council to approve a revenue and capital budget for 2021/22, including setting of the rents and other charges on the Housing Revenue Account (HRA) for the financial year.

2. RECOMMENDATIONS

That Council:

- 2.1 Approve the budget as attached in Appendix 1 (pages 5 to 6) of this report;
- 2.2 Approve the setting of the weekly unrebated rents for municipal houses taking account of proposals outlined for a fixed rent policy, as detailed in Appendix 1, pages 5 to 6 of this report, to take effect from Monday 3 May 2021;
- 2.3 Approve the level of revenue contribution to the Housing Capital budget for 2021/22 as well as note the provisional contribution for the subsequent four financial years as detailed in Appendix 1, pages 18 to 20;
- 2.4 Approve the proposal to maintain the working balances at 10% to meet future contingencies as detailed in Appendix 1, (pages 5 to 6);

- 2.5 Approve the level of miscellaneous rents and service charges, including Heat with Rent as detailed in Appendix 1, (pages 12 to 13), to take effect from Monday 3 May 2021;
- 2.6 Approve, based on the rental increase of 4% the Base Capital Programme for the financial year 2021/22 Appendix 1, (pages 18 to 20);
- 2.7 Note the indicative level of the Base Capital Programme for the financial years 2022/23 to 2025/26 Appendix 1, (pages 18 to 20);
- 2.8 Approve as estimated expenditure in terms of Procurement Regulation 4.1.1, in order for work to commence on the Ongoing Capital Programme, the sums shown against each heading of the Housing Capital Expenditure budget for the financial year 2021/22 set out in Appendix 1, (pages 18 to 20) without the need for separate Committee approval of each;
- 2.9 Delegates authority to the Director of Resources, following consultation with the Chief Officer – Capital, Head of Commercial and Procurement and conveners of the Capital Programme Committee and the City Growth and Resources Committee, to approve business cases related to the expenditure approved in terms of recommendation 2.8 and to undertake or instruct appropriate procedures in accordance with the ACC Procurement Regulations to procure the works referred to in those business cases within the budgets allocated in Appendix 1, (pages 18 to 20) for the capital programme for the financial year 2021/22 and to authorise the award contracts relating thereto;
- 2.10 Approve the gross indicative spend as shown in Appendix 1 (page 22) entitled 'New Housing Capital Programme Budget';
- 2.11 Delegate Authority to the Chief Officer – Capital , following consultation with the Head of Commercial and Procurement Services, to procure the necessary professional services and construction works referred to in Appendix 1 entitled 'New Housing Capital Programme Budget' without the need for further approval from any other committee of the Council subject to due diligence, consistency with the financial model and affordability;
- 2.12 Delegates Authority to the Chief Officer – Capital , following consultation with Chief Officer- Corporate Landlord and the Convener and Vice-Convener of City Growth and Resources, to vire between project budgets as indicated within the ongoing capital programme as referenced in 2.8 and the 'New Housing Capital Programme Budget' in so far as spend remains within the gross expenditure for the programme;
- 2.13 Approve the transfer of land at Market Value from the General Fund to the Housing Revenue Account for the sites at the former Kaimhill Outdoor sports centre, at the appropriate time;
- 2.14 Note that the projects listed in 2.08 above meets the initial requirement to build 2,000 new council houses and the capacity within the initial net budget;

- 2.15 Note that opportunities exist to continue with the programme on a number of sites and instruct the Chief Officer - Corporate Landlord to continue development work on a range of sites as identified in the report as identified in 3.19 and allocate a further £10 million to advance these opportunities;
- 2.16 Note that the delivery and programme management of the new build project is being delivered with the use of frameworks for professional services contracts which includes, programme and project management, technical support and quality assurance all of which is being delivered with the normal fee scales for Housing Projects. These services will continue across the programme as new projects are identified;
- 2.17 Approve £15m for the installation of Fire Suppression/Sprinkler systems in the new build programme as described in Appendix 1 (page 22); and
- 2.18 Note that a second tranche procurement exercise is being progressed to seek out further opportunities for developer led proposals and report the outcome of this to a future meeting of City Growth and Resources Committee.

3. BACKGROUND

Projected Out-turn 2020/21

- 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 (HRA) forecasts a capital from current revenue (CFCR) contribution of £20 million and £500k towards the working balance will be made in 2020/21, the CFR is £5million below budget principally as a result of the additional Repairs and Maintenance and Bad debt costs.
- 3.3 The HRA budget has been aligned with the 30-year HRA 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 10 March 2021 taking account of the various system amendments required, the change in rent levels will start on 3 May 2021. No consultation has been undertaken in 2020 as the rent policy of 4% was agreed for four years at the 3 March 2020 budget meeting.
- 3.5 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; and

- Other expenditure such as loss of rents for vacant periods, insurance, communal lighting and heating, cleaning and security.

3.6 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.

3.7 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 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

3.8 Included within Appendix 1 is an indicative budget for 2021/22 to 2025/26 with an assumed rent increase of 4% for 2021/22 to 2023/24 and 3% for 2024/25 to 25/26 based on the 30-year business plan assumptions.

3.9 In setting a 5-year rent strategy, Council must pay attention to the level of capital investment required to maintain and improve the overall housing conditions available to the tenants.

Underlying Strategy

3.10 Based on Council policy the budgeted figures have assumed a Council house rent increase of 4% for 2021/22 to 2023/24 then revert back to 3% which is in line with the HRA Business Plan.

3.11 The 30-year HRA Business Plan assumes RPI of 2% plus 1%.

3.12 In the UK, inflation remains above the 2% target. However, the Bank of England has set indicators for a target inflation rate and this is currently still set at 2%. Hence, this rate has been assumed going forward but is clearly out with the Council’s control. Inflation projections are included within Appendix 1, page 14.

Housing Market Overview

Local Housing Strategy

3.13 The Aberdeen City Local Housing Strategy (LHS) 2018-2023 provides the strategic direction to respond to housing need and demand and informs the future investment in housing and housing related services across the city. The LHS identifies an affordable housing target of 342 homes per year in 2018/19 and 2019/20 and 385 per year in 2020/21, 2021/22 and 2022/23.

3.14 Layered on top of this is the underlying demand for Council rented properties as illustrated in paragraph 3.17 below. From the total waiting list numbers approximately 4,592 people do not currently have a tenancy agreement with

the Council and therefore represent an underlying demand for new housing within the city.

Rental Market

- 3.15 Average private rents in the Aberdeen city stand at £713 per month, down 0.4% year on year at quarter 3 in 2019. Within a month 41% properties are let.
- 3.16 The largest reduction is seen in 2 bedroomed properties a reduction of 1.4%.
- 3.17 The current demand for Council housing is borne out by the waiting list which as at January 2021 has 5,972, requests for a council tenancy. Therefore, this is still an option for many, and demand is the highest for 1 bed properties, followed by 2 bed properties.

Housing Capital Plan - New Build Council housing

- 3.18 The Council's commitment to create 2,000 new Council houses continues to be progressed following approvals in the 2019/20 and 2020/21 budget. Included within Appendix 1 at page 24 is the current position in relation to sites described as "Contracted Sites". This refers to the 4 sites (Summerhill, Wellheads, Auchmill and Cloverhill) in which the Council has entered into legal contracts with a third party (either through Development Agreements including a PASA agreement or a Construction Contract). The programme is further supported by preparations on the other 4 Council Owned sites (Craighill, Kincorth, Tillydrone and Kaimhill) and the former Council House buy backs.
- 3.19 In addition to the above sites, the programme has identified a variety of other opportunities and design development has been taken forward on other projects including Greenferns and Greenferns Landward in Council ownership and Grandhome and Granitehill which are developer led. Delivery of these sites will take the delivery beyond the initial 2,000 unit target and should these be progressed additional budget allocation will be required. To progress these sites to detailed design it is proposed that a budget of £10 million is allocated with full business cases being brought forward on individual schemes as required.

Ongoing Capital Expenditure

- 3.20 The draft budget for 2021/22 (and the subsequent four financial years) is attached as Appendix 1. This shows gross expenditure of £153 million financed by £114.9 million of borrowing along with £25.8 million by way of a revenue contribution, Second Homes Council Tax funding of £3.6 million and £3.5 million of Government Grants for the buy backs to fund the net programme of £147 million.
- 3.21 This capital budget reflects and includes a proposed rent increase of 4%. The details of the potential projects to be included in this programme are contained in Appendix 1, pages 18 to 20.
- 3.22 Included within the programme over the next five years is the development of 2,000 new Council homes. The Summerhill, Auchmill and Wellheads sites are

already approved, and contractors are working on these. A Pre Award Service Agreement (PASA) is in place for Cloverhill, which if successful will see a site start in late 2021. Further business cases on sites noted in 3.19 are in the process of being developed during 2021/22. Officers are also instructed to return to the market for a second phase of developer led schemes in 2021. The figures included within the plan will therefore be subject to change as schemes are more fully developed and contractors costs are available. Costs in excess of the budget(s) noted will be reported for consideration as they become available.

Reserves & Risk

- 3.23 Welfare reform, including the introduction of Universal Credit, had begun to have an impact on debt levels within the HRA, COVID-19 has increased the number of people claiming therefore debt has significantly increased during 2020/21. 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 as we do not understand the long term impact of COVID -19 on employment.
- 3.24 Based on projected income and expenditure for 2020/21, the opening figure for 2021/22 should be approximately £11.282 million as detailed below:

Movement in Working Balances		£'000
Working balance as at 1 April 2020		12,808
Less: Earmarked sums (2020/21)		
Housing Repairs	(1,718)	
House Sales – Non RTB	(309)	(2,521)
Projected Uncommitted Working Balances 1 April 2019		10,782
20/21 Contribution to working balance		500
Projected Uncommitted Working Balances 1 April 2021		11,282
21/22 Contribution to working balance		500
Projected Uncommitted Working Balances 1 April 2022		11,782

- 3.25 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.

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 12 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 £153 million. This is attached in Appendix 1 at pages 18 to 20.

- 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 The Overall HRA Business Plan was approved at City Growth & Resources Committee on 18 September 2018 and set out the Council's plans for managing and maintaining the housing stock of over 22,000 rented properties held in the Housing Revenue Account (HRA).
- 3.33 It also addressed how the fund will be managed to ensure maximum value is achieved throughout the projected 30-year cycle. Its fundamental purpose is therefore to demonstrate and ensure the efficient use of the Council'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.

Fixed Rent Policy

- 3.34 The current rent policy was approved in 2 March 2020, at Council Budget Meeting. The policy was for a four-year period; 2020/21, 2021/22, 2022/23 and 2023/24.
- 3.35 The advantages of adopting a long-term rent policy:
- Help tenants to budget, providing greater certainty about the level of rent they will have to pay;
 - Consultation has been meaningful and robust
 - Improved tenant engagement
 - Increased confidence and satisfaction in the Council as a landlord
 - Survey cost savings and increased rental income, as consultation and notification would not be required again until the end of the agreed fixed term period.
 - Certainty of income for the period of the policy
 - Assists financial stability of the HRA Financial Plan
 - Better use of resources e.g. Staff
 - Reduce the number of changes to the IT system

Response to Covid-19 Pandemic

- 3.36 Since March 2019, the delivery of Housing services has changed, in line with Government regulations on attendance at work and what is classed as essential work. Legislation has been passed in the Scottish Parliament limiting evictions from social housing with regard to rent arrears, and the way in which we have been able to carry out essential work to our properties has been affected due to physical distancing rules. Overall, this has resulted in a significant proportion of support to tenants being delivered online and through the use of technology such as Microsoft teams. The workforce has continued to support tenants throughout, and new initiatives such as virtual viewings, lettings and pre-termination inspections demonstrate our desire to innovate while supporting tenants and prospective tenants.
- 3.37 Many of our staff volunteered to help with the Crisis Line when it opened, allowing them direct contact with those most in need across the City. This demonstrated the need for support, and in understanding the pressures being faced by our tenants, a decision was taken to stop sending out arrears letters, so as to avoid putting households under more pressure at a time when many would have been facing hardship through, for example, businesses being closed or being furloughed. This was reintroduced in mid-July as the national picture became clearer, however it is clear that the impact of Covid on our housing services has been significant.
- 3.38 The impact of Covid-19 on our housing services, and on the HRA budget, can be seen in the increase in rent arrears and void properties over the year. Throughout the year, staff worked to ensure a steady supply of housing to those who needed it, and to support those in arrears. This work will continue, with improvement projects in place to ensure focus is retained in these critical areas. An example of this is the formation of a Young Persons' Housing Forum last summer, under the auspices of our Tenant Participation work, with young people coming together to discuss with us their thoughts about housing services we offer and ideas for the future. This is extension of our award winning Tenant Participation work, and throughout this pandemic we have been able to keep in constant contact with our tenants through this forum.
- 3.39 The report of the Social Renewal Advisory Board (SRAB), 'If not now, when?', is a direct response to the pandemic and identifies the need to support the social action that has arisen over the last year. Across Aberdeen we have seen a significant increase in community action and volunteering, and the SRAB report identifies a number of 'calls to action' for renewing Scotland as we emerge from the pandemic, with some of these being important for the Housing services we offer.
- 3.40 These include:
- Call to action 2 – an approach to personal debt that is centred on the individual
 - Call to action 6 – the right to an adequate home should be incorporated into Scots law

- Call to action 9 – a call on the next Scottish Government to set a target to end digital exclusion
- Call to action 16 – a call on the public sector to give more control to people and their communities over the decisions that affect them
- Call to action 17 – a call on the public sector and other partners to improve service delivery and design by empowering both teams and the people and communities they serve
- Call to action 19 – a call to ground the benefits of the ‘Calls to action’ into building stronger, more resilient, fairer and healthier communities which meet social, climate and economic equity requirements

3.41 These are not the only ‘Calls to action’ that Housing services will need to take account of in service delivery, and are not exclusive to Housing services, but meet our aspirations as a Social Landlord and match our transformation aims. The review of our Allocations during the year exemplifies our desire to continue improving how we deliver for our tenants and prospective tenants.

Summary

3.42 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 May 2021 which in turn will allow decisions to be taken on the level of capital investment.

4 FINANCIAL IMPLICATIONS

4.1 Setting the budget for the HRA and new rents and charges enables the housing stock to be managed in an effective and responsible way. The income supports in full the payment of ongoing costs of providing social housing in Aberdeen and incorporated costs of voids, debt charges, rent arrears as well as meeting the costs of repairing and maintaining the housing stock.

4.2 Given that the purpose of this report is to set the HRA budget for 2021/22 the financial implications are contained within the report and the attached Appendix 1.

5 LEGAL IMPLICATIONS

5.1 No direct legal implications.

6 MANAGEMENT OF RISK

	Risk	Low (L), Medium (M), High (H)	Mitigation
Strategic	Management of the Housing Revenue Account not achieving intended strategic objectives.	L	Through the Housing Revenue Account Business Plan

	The Council approved a Risk Appetite Statement (RAS) on 9 December 2020. The RAS sets out how the Council will balance its risks and opportunities in pursuit of delivering the outcomes set out within the Local Outcome Improvement Plan and associated strategies.	M	The recommendations and risk assessment carried out are consistent with the Council's RAS. Should Council be minded to depart from the recommendations, it is important in doing so that the Council considers the potential impacts across the organisation and on the Council's pursuit of strategic outcomes.
Compliance	Non-compliance with Housing Revenue Account Guidance.	L	Review process undertaken as part of budget process.
Operational	Housing Revenue Account should be effective in enabling the most efficient method to provide housing to the 22,000 tenancies and maximising the efficiency of the account to provide Best Value.	L	Ensure Best Value is achieved for the 22,000 tenancies.
Financial	Every organisation has to manage the financial risks inherent in the operation of large and complex budgets. In relation to capital projects there is a risk that following the procurement process tendered costs will vary from that assumed at the time of project approval.	M M	These risks are minimised by the regular review of financial information by services and corporately by Elected Members. Quantification and review of indicative projects costs by suitable qualified staff or external body, where appropriate.
Reputational	The reputational risks to the Council are minimised by the regular review of financial information by CMT, the Performance Board and Elected members throughout the Financial year.	L	All staff and Elected Members advised.
Environment / Climate	The budget proposed indicates a number of areas where energy	M	Risks minimised if report recommendations are approved

	improvements are recommended, or monies set aside to identify sustainable energy solution in the future. Not to proceed with this would create risks		
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7 OUTCOMES

<u>COUNCIL DELIVERY PLAN</u>	
	Impact of Report
Aberdeen City Council Policy Statement	Housing Revenue Account should be effective in enabling the most efficient method to provide housing to the 22,000 tenancies and maximising the efficiency of the account to provide Best Value.
Aberdeen City Local Outcome Improvement Plan	
Prosperous Economy Stretch Outcomes	The purchasing power of the HRA creates a positive impact on the economy.
Prosperous People Stretch Outcomes	Recognising that good quality Housing is a key driver of Public Health and can affect the wellbeing of tenants in all areas of life including educational attainment, employment, and physical and mental health.
Prosperous Place Stretch Outcomes	A core aspect of the structure of the Early Intervention and Community Empowerment structure and culture is community sustainability, and the management of the Housing Revenue Account, is important in this context.
Regional and City Strategies	The HRA is sustainable through the HRA business plan this delivers the sustainability of the 22,000 tenancies.

8. IMPACT ASSESSMENTS

Reflect whether any of the following have been completed as part of your report

Assessment	Outcome
Impact Assessment	Not required
Data Protection Impact Assessment	Not required

9 BACKGROUND PAPERS

Bank of England Inflation report: December 2020
Citylets Quarterly report Q3 2020

10 APPENDICES (if applicable)

Appendix 1 Draft Housing Revenue Account 2021/22 -2025/26 Budget

11 REPORT AUTHOR CONTACT DETAILS

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