

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	7 March 2022
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Housing Revenue Account Budget 2022/23
REPORT NUMBER	RES/22/060
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 2022/23, 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 2 to 3) of this report;
- 2.2 Note the Council decision on 10th March 2021 to maintain in 2022/23 the weekly unrebated rents for municipal houses at the level set in 2020/21;
- 2.3 Approve the level of revenue contribution to the Housing Capital budget for 2022/23 as well as note the provisional contribution for the subsequent four financial years as detailed in Appendix 1, pages 9 to 11;
- 2.4 Agree to maintain the working balances at 10% to meet future contingencies;
- 2.5 Note the Council decision on 10th March 2021 to maintain in 2022/23 the level of miscellaneous rents and service charges, including Heat with Rent at the levels set in 2020/21;
- 2.6 Approve, based on a rent freeze the Base Capital Programme for the financial year 2022/23 Appendix 1, (pages 9 to 11);
- 2.7 Note the indicative level of the Base Capital Programme for the financial years 2023/24 to 2026/27 Appendix 1, (pages 9 to 11);
- 2.8 Delegate Authority to the Chief Officer – Capital, following consultation with the Head of Commercial and Procurement, 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; and

- 2.9 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.

3. BACKGROUND

Projected Out-turn 2021/22

- 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 £23.7 million and £500k towards the working balance will be made in 2021/22, the CFR is £1.4million above budget principally as a result of the reduced debt charges as a result of grant income being received in 2020/21 for the New Build.
- 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. As the decision was taken at the Council's budget meeting on 10th March 2021 to freeze rent in 2022/23 this is not required; this also applies to the consultation.
- 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

In summary the main elements of the HRA budget for the next five years -

3.8

	22/23	23/24	24/25	25/26	26/27
	£'000	£'000	£'000	£'000	£'000
CFCR	15,974	14,294	14,224	12,136	10,960
Management & Admin	13,411	13,680	13,953	14,302	14,660
Repairs & Maintenance	30,563	31,175	31,798	32,593	33,408
Rental Income	(91,924)	(95,942)	(101,012)	(104,240)	(107,296)

Underlying Strategy

3.9 Based on the Council decision taken on 10 March 2021 the budgeted figures have assumed a Council house rent increase of 0% for 2022/23, 4% for 2023/24 and then revert back to 3% which is in line with the HRA Business Plan.

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

3.11 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% however the current inflation rate for December 2021 is 5.4%. The volatility of the inflation rate has resulted in varying uplifts being used for the budget, and clearly this is out with the Council's control.

Housing Market Overview

Local Housing Strategy

3.12 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.

3.13 Layered on top of this is the underlying demand for Council rented properties as illustrated in paragraph 3.16 below. From the total waiting list numbers approximately 5,193 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

3.14 Average private rents in the Aberdeen city stand at £715 per month, up 0.1% year on year at quarter 3 in 2020. Within a month 46% properties are let.

- 3.15 In 1 bedroomed properties the rent has reduced by 3.3% however with 4 bedroomed properties the rent has increased by 5.2%.
- 3.16 The current demand for Council housing is borne out by the waiting list which as at January 2022 has 5,405 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.

3.17 Housing Capital Plan - New Build Council housing

Reports on the progress of both Council led and Developer led projects, have been regularly submitted to the Capital Programme Committee, the latest summary is provided in Appendix 1, Page 12. Below is a summary of the status of the delivery of new council housing.

Sites	Council Led or Developer Led	No of Units	Status
Craighill	Council	99	Under Construction
Kincorth	Council	212	Under Construction
Tillydrone	Council	70	Under Construction
Summerhill	Council	369	Under Construction
Wellheads	Developer	283 (of which 227 delivered)	Under Construction
Auchmill Road	Developer	92	Under Construction
Kaimhill	Council	35	Site Mobilisation
Cloverhill	Developer	536	Site Mobilisation
Buy Back Scheme	Council	190 repurchased 167 pending checks	N/A
Grandhome	Developer	95	RIBA Stage 4
Greenferns	Council	350	RIBA Stage 2
Greenferns Landward	Council	161	RIBA Stage 2

3.18 Multi Storey Listing

Historic Environment Scotland informed the Council on 19th January 2021, that eight city centre blocks had been listed under the Planning (Listed Buildings and Conservation Areas) (Scotland) Act 1997, Buildings of Special Architectural or Historic Interest.

- Gilcomstoun Land;
- Porthill and Seamount Courts;
- Virginia and Marischal Courts;
- Thistle Court;
- Greig and Hutcheon Court.

Following an appeal by the Council a decision on the proposed listings was received from the Scottish Government on 31 December 2021 which removed the following from the above list – Hutcheon, Greig and Thistle Courts.

Over-view reports have been prepared on the Draft Life Cycle Cost Options, and Implications of Listing. It is likely that a significant annualised budget should

be allowed for against each block against ongoing maintenance, and investment requirements. Also upgrading these properties to modern thermal and other quality expectations will be challenging to achieve.

In the Housing Capital Programme for 2022/23 a budget of £200k has been proposed and this will allow the following tasks and reports to be completed by Summer 2022:

- detailed survey of the condition to each block;
- detailed examination of what is required to upgrade these blocks to modern standards, with the objective of meeting the Council's lettable standard for a further 30 years.

Following on from this it is then proposed that consultations be undertaken with the stakeholders, including the private owners and Historic Environment Scotland, with completion by the end of 2022.

It is proposed that a Full Business Case and Report then be made to Council in Spring 2023. The intention of this Report will be to allow the Council to decide which option it wishes to select, and to decide upon any next steps, that are then required

Ongoing Capital Expenditure

- 3.19 The draft budget for 2022/23 (and the subsequent four financial years) is attached as Appendix 1. This shows gross expenditure of £182 million financed by £131.4 million of borrowing along with £15.974 million by way of a revenue contribution and Government Funding/Other Income of £35 million.
- 3.20 This capital budget reflects and includes a proposed rent freeze. The details of the potential projects to be included in this programme are contained in Appendix 1, pages 9 to 11.
- 3.21 Included within the programme over the next five years is the development of 2,000 new Council homes.

Reserves & Risk

- 3.22 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 continued to significantly increase during 2021/22. 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 as we do not understand the long term impact of COVID -19 on employment.
- 3.23 Based on projected income and expenditure for 2021/22, the opening figure for 2022/23 should be approximately £11.781 million as detailed below:

Movement in Working Balances		£'000
Working balance as at 1 April 2021		14,715
Less: Earmarked sums (2020/21)		
Housing Repairs	(3,125)	

House Sales – Non RTB	(309)	(3,434)
Projected Uncommitted Working Balances 1 April 2021		11,281
21/22 Contribution to working balance		500
Projected Uncommitted Working Balances 1 April 2022		11,781
22/23 Contribution to working balance		500
Projected Uncommitted Working Balances 1 April 2023		12,281

- 3.24 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.

Prudential Code

- 3.25 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.
- 3.26 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 is £182 million. This is attached in Appendix 1 at pages 9 to 11.
- 3.27 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".
- 3.28 The Council's Prudential Indicators are included within the General Fund report which is also included on this agenda

Business Plan

- 3.29 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).
- 3.30 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.

3.31 Impact of rental freeze in 2021/22 & 2022/23

A Rental freeze was agreed for both 2021/22 and 2022/23 by Council on 10th March 2021; previously the Council had agreed a rental increase of 4% for 4 years from 2020/21 to 2023/24. A two-year freeze compounds to a rental loss of £358m over the 30 years of the business plan.

The immediate impact is a reduction in the level of Capital from Current Revenue (CFCR) which can be afforded. This reduces to £16m in 22/23 from

£24m in 21/22 and will also result in a higher level of interest on the borrowing for the capital programme as the CFCR reduces the amount of borrowing required.

By 25/26 CFCR is forecast to be at £12m, but this assumes that rent levels increase by 4% in 23/24 and 3% thereafter; if there is a possibility that this may not happen then the long-term sustainability of the HRA is at risk.

3.32 Voids

As of 7th February 2022, 1,397 properties are classed as 'Void', meaning that they are not currently occupied and are in the process of being returned to let. Void Properties are creating a cost pressure in the HRA budget, budget has increased from £2.2m in 2021/22 to £3.2m in 2022/23, as both years have a rental freeze in place this is not impacted by a rental increase.

As of 7th February 2022, there had been 53 terminations in the previous week, with 2,020 terminations in 2021/22. Terminations result from several reasons, the highest rate of these are for transfers of tenancy where a tenant wishes to move, upsize or downsize but remains with the Council as a landlord; where the tenant sadly dies and the tenancy ends; where the tenant is in a home/hospital/prison; or where our tenant transfers to another landlord or private sector.

There has been an increase in the number of properties available for immediate rent with no confirmed offer. This is primarily an increase in the number of sheltered, very sheltered, and multi-storey properties that are available but with no accepted offers for them. This is a growing trend, particularly around 2 bed properties in multi-storey accommodation. We are experiencing a rate of around 63% refusals for properties offered to applicants, this is higher than average. This is despite a significant increase in 2021/22 in the number of offers made to applicants.

To reduce the level of voids there have been several new initiatives. These include a new letting standard being introduced for properties, with properties being painted and having vinyl flooring laid in the kitchen and bathroom prior to being relet. This work has recently been implemented, with several properties being relet at this new standard. We continue to work with our approved contractor, Morrison Construction, to return properties to the market for let. Also, increasing tenancy inspections prior to a tenant vacating a property and refusing transfers where a property would be returned to us in a worse condition than when a tenant signed their lease.

The implementation of our new Housing and Support model will ensure that Council properties receive an annual inspection to ensure that where properties are damaged, we are able to work with households to ensure the property is repaired and maintained at the standard required.

3.33 Choice Based Letting

The introduction of Choice Based Letting (CBL) as approved at Operational Delivery Committee in January 2022 will have a positive impact on the level of voids. In this approach, the Council will advertise vacant properties, providing

detailed information including photographs and video on the property and applicants are invited to make a bid on a property of their choice. Applicants are grouped into broad categories of priority, namely Movers and Starters; Movers are mainly current council tenants and Starters are all other applicants.

The bidding process makes it far more likely that applicants and properties will be matched sooner, reducing the number of offers required but also the overall length of time taken to let a property. It is envisaged that a CBL approach will encourage a broader range of people to access social housing and give people more choice over their housing outcomes. By empowering and placing the initiative on the applicant, it is envisaged that CBL may improve demand for low demand stock, reduce refusal rates, and improve applicant satisfaction.

4 FINANCIAL IMPLICATIONS

- 4.1 Setting the budget for the HRA 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 2022/23 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
	Audit, Risk & Scrutiny Committee on 22 February 22 refreshed the Risk Appetite Statement. The RAS sets out how the Council will balance its risks and	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

	opportunities in pursuit of delivering the outcomes set out within the Local Outcome Improvement Plan and associated strategies.		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 improvements are recommended, or monies set aside to identify sustainable energy solution in the future. Not to proceed	M	Risks minimised if report recommendations are approved

	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

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

9 BACKGROUND PAPERS

Bank of England Inflation report: December 2021
Citylets Quarterly report Q3 2021

10 APPENDICES

Appendix 1 Draft Housing Revenue Account 2022/23 -2026/27 Budget

11 REPORT AUTHOR CONTACT DETAILS

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