

## ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Council
<b>DATE</b>	1 March 2023
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Housing Revenue Account Budget 2023/24
<b>REPORT NUMBER</b>	RES/23/081
<b>DIRECTOR</b>	Steven Whyte
<b>CHIEF OFFICER</b>	Jonathan Belford
<b>REPORT AUTHOR</b>	Helen Sherrit
<b>TERMS OF REFERENCE</b>	2

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### 1. PURPOSE OF REPORT

- 1.1 To provide elected members with information to enable the Council to approve a revenue and capital budget for 2023/24, including setting of the rents and other charges on the Housing Revenue Account (HRA) for the financial year.

### 2. RECOMMENDATION(S)

That the Council:

- 2.1 Approve the budget as attached in Appendix 1 pages 2 to 3 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 2 to 8 of this report, to take effect from Monday 1<sup>st</sup> May 2023;
- 2.3 Approve the level of revenue contribution to the Housing Capital budget for 2023/24 as well as note the provisional contribution for the subsequent four financial years as detailed in Appendix 1, pages 11 to 13;
- 2.4 Agree to maintain the working balances at 10% to meet future operational requirements and risks, noting that if the Housing Revenue Account records a deficit and has no reserves then the Councils General Fund must make a contribution to balance the Account;
- 2.5 Approve the level of miscellaneous rents and service charges, including Heat with Rent as detailed in Appendix 1, pages 9 to 10 to take effect from Monday 1<sup>st</sup> May 2023;
- 2.6 Approve, based on a rental increase of 4% the Base Capital Programme for the financial year 2023/24 Appendix 1, pages 11 to 13;
- 2.7 Note the indicative level of the Base Capital Programme for the financial years 2024/25 to 2024/28 Appendix 1, pages 11 to 13;

- 2.8 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;
- 2.9 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;
- 2.10 Note that the current long term Council house rent policy runs out on the 31<sup>st</sup> March 2023, and instruct the Chief Officer – Early Intervention and Community Empowerment to undertake a consultation on a further long term Council house rent policy for inclusion in the 2024/25 budget process;
- 2.11 Note the recommendation in the Prevention and Early Intervention report also being considered at the Council meeting of 1<sup>st</sup> March 2023 to undertake tiered analysis of resource requirements in the refreshed Local Housing Strategy to be presented for approval to the Communities, Housing and Public Protection Committee, noting the significance of housing as one of the key determinants of population health;
- 2.12 Instruct the Chief Officer – Early Intervention and Community Empowerment, in consultation with the Chief Officer – Finance, to undertake a tiered trend analysis of the Housing Revenue Account Budget for inclusion in the 2024/25 budget process, ensuring an appropriate focus is placed on prevention and early intervention when investing tenant funds; and
- 2.13 In response to the instruction of Communities Housing and Public Protection 17<sup>th</sup> January 2023 committee to *(iv) to instruct the Chief Officer – Corporate Landlord, as part of the 2023/24 budget setting process, to consider the balance between pro-active preventative maintenance and replacement works with a view to reporting a more robust planned maintenance programme as part of the HRA Capital and Revenue budgets, reflecting all other budget pressures; agree that 10% of the HRA Repair and maintenance budget be ringfenced for planned maintenance works on the estate.*

### **3. CURRENT SITUATION**

#### **Projected Out-turn 2022/23**

- 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 overall HRA budget is balanced however there are several areas of pressure. These are the increases being experienced in repairs and

maintenance from the cost of materials, utilities, and housing voids. The higher costs in these areas will be offset by a reduced contribution to Capital from Current Revenue (CFCR), and reduced capital financing costs.

### **Institutional Framework**

- 3.3 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 1 March 2023 taking account of the various system amendments required, the change in rent levels will start on 1 May 2023. No consultation has been undertaken in 2022 as the rent policy of 4% was agreed for four years at the 3 March 2020 budget meeting. Consultation on a new rental policy will be undertaken during 2023/24.
- 3.4 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.
- 3.5 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.
- 3.6 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 CFRC 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 -

3.7

	<b>23/24</b>	<b>24/25</b>	<b>25/26</b>	<b>26/27</b>	<b>27/28</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
CFCR	12,654	8,183	6,173	3,888	1,365
Management & Admin	13,814	14,090	14,372	14,659	14,952
Repairs & Maintenance	33,008	34,659	36,392	38,211	40,122
Rental Income	(96,578)	(98,164)	(102,127)	(105,391)	(108,286)

### **Underlying Strategy**

- 3.8 Based on the Council policy the budgeted figures have assumed a Council house rent increase of 4% for 2023/24 and then revert back to 3% which is in line with the HRA Business Plan.
- 3.9 The 30-year HRA Business Plan assumes RPI of 2% plus 1%.
- 3.10 In the UK, inflation remains well above the 2% target set by the Bank of England, however, they do expect inflation to quickly fall this year and forecast annual CPI inflation to fall to around 4% towards the end of this year. This is anticipated as the price of energy is not expected to rise as rapidly as it did in 2022/23, the same with the price of imported goods and the higher interest rates introduced by the Bank of England. 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. The inflation environment makes it essential that rent / income levels increase otherwise this will impact significantly on maintenance and capital investment and undermine the sustainability of the Housing Revenue Account.

### **Housing Market Overview**

#### **Local Housing Strategy**

- 3.11 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 identified 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.
- 3.12 Layered on top of this is the underlying demand for Council rented properties as illustrated in paragraph 3.15 below. From the total waiting list numbers approximately 4,037 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**

- 3.13 Average private rents in the Aberdeen city stand at £786 per month, up 10.1% year on year at quarter 4 in 2021 however in 10 years the rent has fallen by 17.3%. Within a month 77% properties are let.
- 3.14 In 1 bed roomed property the rent has increase by 12.5% and 4 bed roomed properties the rent has increased by 8.8%.
- 3.15 The current demand for Council housing is borne out by the waiting list which as of January 2023 has 5,477 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**

- 3.16 Reports on the progress of both Council led and Developer led projects, were regularly submitted to the Capital Programme Committee and are now being

submitted to Finance & Resources Committee, the latest summary is provided in Appendix 1, Page 14.

### **Ongoing Capital Expenditure**

- 3.17 The draft budget for 2023/24 (and the subsequent four financial years) is attached as Appendix 1. This shows gross expenditure of £159 million financed by £125.4 million of borrowing along with £12.4 million by way of a revenue contribution and Government Funding/Other Income of £21 million.
- 3.18 This capital budget reflects and includes a rental increase of 4%. The details of the potential projects to be included in this programme are contained in Appendix 1, pages 11 to 13.
- 3.19 Included within the programme over the next five years is the development of 2,000 new Council homes.

### **Reserves & Risk**

- 3.20 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 2022/23. 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 it is difficult to predict the impact of inflation on supplies and services for repairs and maintenance.
- 3.21 Based on projected income and expenditure for 2022/23, the opening figure for 2023/24 should be approximately £12.926 million as detailed below:

<b>Movement in Working Balances</b>	<b>£'000</b>	
Working balance as at 1 April 2022		15,215
Less: Earmarked sums (2021/22)		
Housing Repairs	(2,480)	
House Sales – Non RTB	(309)	(2,789)
Projected Uncommitted Working Balances 1 April 2022		12,426
22/23 Contribution to working balance		500
Projected Uncommitted Working Balances 1 April 2023		12,926
23/24 Contribution to working balance		500
Projected Uncommitted Working Balances 1 April 2024		13,426

- 3.22 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**

- 3.23 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.
- 3.24 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 is £159 million. This is attached in Appendix 1 at pages 11 to 13.

- 3.25 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".
- 3.26 The Council's Prudential Indicators are included within the General Fund report which is also included on this agenda

### **Business Plan**

- 3.27 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).
- 3.28 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.

### **3.29 Impact of rental freeze in 2021/22 & 2022/23**

A rental freeze was agreed for both 2021/22 and 2022/23 by Council on 10<sup>th</sup> 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 £360m over the 30 years of the business plan.

The immediate impact is a reduction in the level of Capital from Current Revenue (CFCR) which is affordable, making the cost of capital investment higher. The value of CFCR contributing to the capital programme reduces to £12m in 23/24 from £24m in 21/22 and results in a higher level of interest on the borrowing for the capital programme.

By 2026/27 CFCR is forecast to be at £1.3m, 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 due to the level of price increases experienced in the repairs and maintenance, voids and bad debt.

It should be noted that in accordance with the Housing (Scotland) Act 1987, section 210 (3) "In determining standard rents to which their housing revenue account relates, a local authority shall take no account of the personal circumstances of the tenants".

### **3.30 Voids**

As of the end of end of January 2023, 1,432 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, anticipated out-turn in 2022/23 of £4.5m compared to a budget of £3.2m.

It is forecast that voids will reduce back to a level more in line with budget due to the grant funding from the Scottish Government of up to £6.15m to return up to 500 void properties to use over the next year. These will be made available to Ukraine Displaced Persons (UDP) through national matching and should result in a significant reduction in hotel type accommodation being used to host UDP in Aberdeen. These properties will be allocated for the duration of the visa that UDP hold, normally up to 3 years, after which they will be returned to the Council for allocating.

It is important to note that these properties are those that require significant Capital works and would not be prioritised for our own stock due to the resources required to repair them. There is no detriment to local people on our waiting list. Work is well established to complete the 500 properties by 31 March 2024.

### **3.31 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. Choice based lettings represents an alternative allocation process for social housing and has already been adopted by many social landlords in Scotland, including City of Edinburgh, Aberdeenshire, and Angus Councils.

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. It is anticipated that through the Choice Based Letting system, refusal rates will decrease to around 30% once fully operational.

A report to be presented to Communities, Housing and Public Protection Committee on 14<sup>th</sup> March 2023 seeks approval for an updated Allocations Policy, taking account of the experience of Choice Based Lettings testing and ensuring our approach is sully up to date.

## **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 2023/24 the financial implications are contained within the report and the attached Appendix.

## 5. LEGAL IMPLICATIONS

5.1 No direct legal implications.

## 6. ENVIRONMENTAL IMPLICATIONS

6.1 The budget proposed indicates several areas where energy improvements are recommended, or monies set aside to identify sustainable energy solution in the future.

## 7. RISK

7.1 The assessment of risk contained within the table below is considered to be consistent with the Council's Risk Appetite.

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H)  *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
<b>Strategic Risk</b>	<p>Management of the Housing Revenue Account not achieving intended strategic objectives.</p> <p>Audit, Risk &amp; Scrutiny Committee on 22 February 22 refreshed the Risk Appetite Statement. The RAS sets out how the Council will balance its risks and opportunities in pursuit of</p>	<p>Through the Housing Revenue Account Business Plan</p> <p>The recommendations and risk assessment carried out are consistent with the Council's RAS. Should Council be minded departing from the recommendations, it is important in doing so that the Council considers the potential impacts across the organisation and on</p>	<p>L</p> <p>M</p>	<b>Yes</b>



	delivering the outcomes set out within the Local Outcome Improvement Plan and associated strategies.	the Council's pursuit of strategic outcomes.		
<b>Compliance</b>	Non-compliance with Housing Revenue Account Guidance.	Review process undertaken as part of budget process	L	<b>Yes</b>
<b>Operational</b>	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.	Ensure Best Value is achieved for the 22,000 tenancies.	L	<b>Yes</b>
<b>Financial</b>	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	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	M  M	<b>Yes</b>

	will vary from that assumed at the time of project approval.	or external body, where appropriate.		
<b>Reputational</b>	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.	All staff and Elected Members advised.	L	<b>Yes</b>
<b>Environment / Climate</b>	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 with this would create risks.	Risks minimised if report recommendations are approved	M	Yes

## 8. OUTCOMES

<b><u>COUNCIL DELIVERY PLAN 2022-2023</u></b>	
<b>Impact of Report</b>	
<b>Aberdeen City Council Policy Statement</b>	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.

<a href="#">Aberdeen City Local Outcome Improvement Plan 2016-26</a>	
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.
<b>Regional and City Strategies</b>	The HRA is sustainable through the HRA business plan this delivers the sustainability of the 22,000 tenancies.

## 9. IMPACT ASSESSMENTS

Assessment	Outcome
<b>Integrated Impact Assessment</b>	Not required.
<b>Data Protection Impact Assessment</b>	Not required.
<b>Other</b>	Not required.

## 10. BACKGROUND PAPERS

Bank of England Inflation report: February 2023  
Citylets Quarterly report Q4 2022

## 11. APPENDICES

Appendix 1 Draft Housing Revenue Account 2023/24 -2027/28 Budget

## 12. REPORT AUTHOR CONTACT DETAILS

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