

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	13 December 2023
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Housing Revenue Account Budget 2024/25
REPORT NUMBER	RES/23/385
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 2024/25, including setting of the rents and other charges on the Housing Revenue Account (HRA) for the financial year.

2. RECOMMENDATIONS

That the Council:

- 2.1 Approve the budget as attached in Appendix 1, page 2, of this report;
- 2.2 Approve the setting of the weekly unrebated rents for municipal houses in Appendix 1, page 3 of this report, to take effect from Monday 1st April 2024;
- 2.3 Approve the level of revenue contribution to the Housing Capital budget for 2024/25 as well as note the provisional contribution for the subsequent four financial years as detailed in Appendix 1, pages 16 to 18;
- 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 Council's 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 and the General Fund Support Services Charges as detailed in Appendix 1, pages 13 to 14, to take effect from Monday 1st April 2024;
- 2.6 Approve, based on a rental increase of 8.8% the Base Capital Programme for the financial year 2024/25 Appendix 1, pages 16 to 18;
- 2.7 Note the indicative level of the Base Capital Programme for the financial years 2025/26 to 2028/29 Appendix 1, pages 16 to 18;

- 2.8 Note that the long term Council house rent policy ran out on 31st March 2023, consultation was undertaken on a one year rent increase in 2024/25, and therefore instruct the Chief Officer – Early Intervention and Community Empowerment to undertake a similar consultation for inclusion in the 2025/26 budget process and consider if there is any benefit in a longer term Council house rent policy;
- 2.9 Note the inclusion of the tiered trend analysis of the Housing Revenue Account Budget 2024/25, page 4 in Appendix 1, and the current actions to move spend from Tier 2 Early Intervention to Tier 1 Prevention;
- 2.10 Approve the creation of a £500k Rent Assistance Fund pilot, pages 11 to 12 in Appendix 1, and instruct the Chief Officer – Early Intervention and Community Empowerment in consultation with the Chief Officer – Finance to define the proposed criteria and how such a fund would be managed to be reported to the Communities, Housing and Public Protection Committee on 28th March 2024;
- 2.11 Instruct the Chief Officer – Early Intervention and Community Empowerment, in consultation with the Chief Officer – Finance to investigate a potential pilot to reduce the rent of properties which have been void for 12 months, reporting back to the 2025/26 budget process;
- 2.12 Instruct the Chief Officer – Corporate Landlord, in consultation with the Chief Officer – Finance and the Chief Officer – Early intervention and Community Empowerment, to undertake a review of the rental differentiations per property type, including any premium that may be applied to properties with high energy efficiency levels reporting the outcome to a future meeting of the Communities Housing and Public Protection Committee and thereafter as part of the 2025/26 budget process; and
- 2.14 Delegates Authority to the Chief Officer Corporate Landlord in consultation with the Officer – Finance, Chief Officer Capital and the Chief Officer – Early Intervention and Community Empowerment to vire monies from the Housing Capital Plan to support any works that may be required for RAAC interventions across the estate, retrospectively reporting any actions to the next available meeting of the Communities Housing and Public Protection Committee.

3. CURRENT SITUATION

Projected Out-turn 2023/24

- 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.
- 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, pay awards, 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, this is not sustainable and this is why the tenants were consulted on a 8.8% rental increase for 2024/25.

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 13 December 2023, taking account of the various system amendments required, the change in rent levels will start on 1 April 2024.
- 3.4 Rent consultation was carried out in September 2023 with a closing date of 28 October 2023 for responses. Tenants were asked two questions: What would you prefer to increase rent by? 6.3% or 8.8%? There was a response rate of approximately 10%, with 40% voting for 8.8% and 60% 6.3%, therefore not a clear no to the higher increase to sustain existing services. Further details are included in Appendix 1, Page 7.
- 3.5 It was agreed this year not to consult on a longer term rent policy due to the economic uncertainty and the ongoing discussions on pay awards but this may be considered for the 2025/26 budget process if there is more financial stability.
- 3.6 The setting of the rent has been considered at the Full Council meeting in March since 2018. Prior to 2018, the decision on these specific incomes were considered at Council meeting in December of each year, which enabled officers to carry out a well-planned, carefully managed, low risk transition to the new rent charges which then took effect from April of the following financial year.
- 3.7 It was therefore agreed to bring forward future annual rent increase decisions from March Full Council meetings to December. This approach would ensure that we are line with other services, internally and externally, in setting rents at the beginning of financial year in April and reduces the risk of potential failures in the system. It will also ensure that we are maximising our rental income and removing potential losses to the HRA.
- 3.8 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.

3.9 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.

3.10 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 -

3.11 For 8.8% rent increase in 24/25, then 25/26 onwards 3%

HRA Summary	Budget 24/25 £'000	Budget 25/26 £'000	Budget 26/27 £'000	Budget 27/28 £'000	Budget 28/29 £'000
Housing Staff Management & Operations	15,852	16,161	16,476	16,798	17,126
Property Planned & Response Maintenance	41,040	43,092	45,247	47,509	49,884
Other Operational Costs (Grounds/Cleaning etc)	15,350	15,840	16,349	16,878	17,427
Cost of Repaying Borrowing	20,767	23,830	26,155	28,652	40,259
Loss of Rent – Voids and Bad Debt	13,063	13,445	13,839	14,244	13,063
Total	106,072	112,368	118,066	124,080	137,759
This enables the following to be made -					
Contribution to Capital Investment (CFCR)	9,048	9,506	5,690	1,561	
HRA Deficit					11,325

For 6.3% rent increase in 24/25, then 25/26 onwards 3%

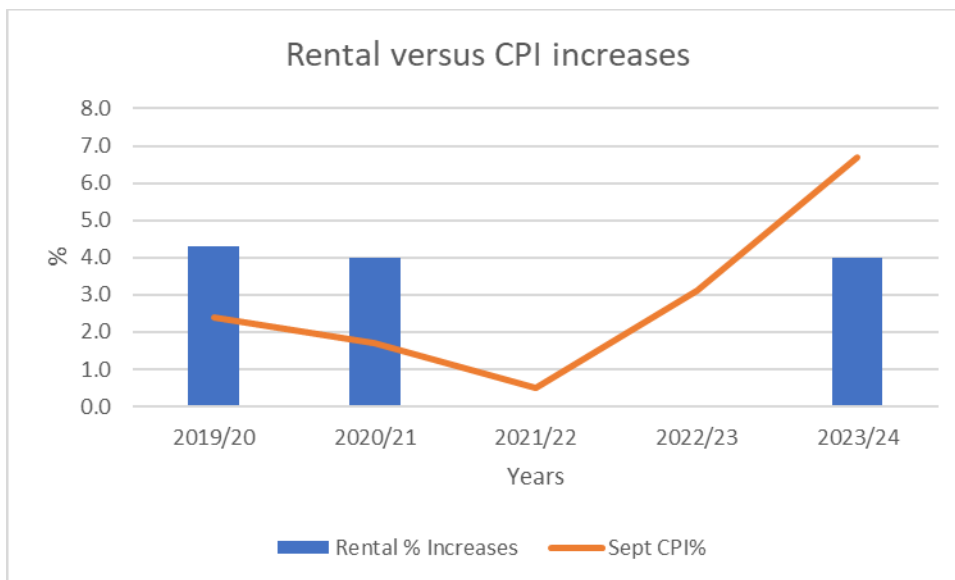
HRA Summary	Budget 24/25 £'000	Budget 25/26 £'000	Budget 26/27 £'000	Budget 27/28 £'000	Budget 28/29 £'000
Housing Staff Management & Operations	15,852	16,161	16,476	16,798	17,126
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Other Operational Costs (Grounds/Cleaning etc)	15,350	15,840	16,349	16,878	17,427
Cost of Repaying Borrowing	20,767	23,830	26,155	28,652	40,259
Loss of Rent – Voids and Bad Debt	13,063	13,445	13,839	14,244	14,661
Total	106,072	112,368	118,066	124,080	139,357
This enables the following to be made -					
Contribution to Capital Investment (CFCR)	6,798	7,192	3,308	0	0
HRA Deficit				390	13,847

As you will see the main impact of increasing rent by 6.3% is the reduction in the CFCR for 2024/25.

The emerging issue from both rental increases is the financial sustainability of the HRA, looking beyond 2027/28 the income will be fully utilised servicing the debt. If a deficit was to occur there is no funding available from other sources, therefore costs will have to be reduced. This could include the staff costs for the management of properties, repairs to properties, life cycle extended etc. This could lead to the requirement for above inflation rent increases being more likely.

Underlying Strategy

- 3.12 Based on the Council policy the budgeted figures have assumed a Council house rent increase of 8.8% for 2024/25 and then revert back to 3% which is in line with the HRA Business Plan.
- 3.13 The 30-year HRA Business Plan assumes RPI of 2% plus 1%.
- 3.14 The graph below shows the rental increases for each year from 2019-20 compared to the Consumer Price Index (CPI) for each September in the year before. This shows from 2021-22 that rental increases were not keeping pace with CPI, in 2023-24 a rental increase of 4% compared to CPI in September 2022 of 10.1%. CPI in September 2023 is 6.7%.



Housing Market Overview

Local Housing Strategy

- 3.15 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. This is in the process of being updated for 2024 and will be reported to the Communities, Housing and Public Protection Committee in due course.
- 3.16 Layered on top of this is the underlying demand for Council rented properties at the end of November 2023 the total waiting list is approximately 6,309 (of which 498 are homeless households) these are people who do not currently have a tenancy agreement with the Council and therefore represent an underlying demand for new housing within the city.

Rental Market

- 3.17 Average private rents in Aberdeen city stand at £832 per month, up 7.8% year on year at quarter 3 in 2023 however in 10 years the rent has fallen by 17%. Within a month 65% of properties are let.
- 3.18 In 1 bedroomed properties the rent has increased by 10.7% and in 4 bedroomed properties the rent has increased by 0.7% year on year.
- 3.19 The current demand for Council housing is borne out by the waiting list which as of November 2023 has 6,309 requests for a council tenancy. Therefore, this is still an option for many, and demand is the highest for 1 bedroomed properties

Housing Capital Plan - New Build Council housing

- 3.20 Reports on the progress of both Council led and Developer led projects, are regularly submitted to the Finance & Resources Committee, the latest summary is provided in Appendix 1, Page 19.

Ongoing Capital Expenditure

- 3.21 The draft budget for 2024/25 (and the subsequent four financial years) is attached as Appendix 1. This shows net expenditure of £123 million financed by £96 million of borrowing along with £9 million by way of a revenue contribution and Government Funding/Other Income of £18 million.
- 3.22 This capital budget reflects and includes a rental increase of 8.8%. The details of the potential projects to be included in this programme are contained in Appendix 1, pages 16 to 18.
- 3.23 Included within the programme over the next five years is the continuing delivery of both council led and developer led new Council homes.

Reserves & Risk

- 3.24 The continuing cost of living crisis is having an impact on debt levels within the HRA, which has followed on from the impact of COVID-19 resulting in debt not reducing to a significant 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.
- 3.25 Based on projected income and expenditure for 2023/24, the opening figure for 2024/25 should be approximately £13.628 million as detailed below:

Movement in Working Balances	£'000	
Working balance as at 1 April 2023		15,715
Less: Earmarked sums (2022/23)		
Housing Repairs	(2,278)	
House Sales – Non RTB	(309)	(2,587)
Projected Uncommitted Working Balances 1 April 2023		13,128
23/24 Contribution to working balance		500
Projected Uncommitted Working Balances 1 April 2024		13,628
24/25 Contribution to working balance		500
Projected Uncommitted Working Balances 1 April 2025		14,128

- 3.26 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.

From the HRA guidance issued in 2014 “Under paragraph 9(2) of Schedule 15 to the 1987 Act, if a HRA deficit arises in any one year, the local authority must make a contribution to make good the deficit from the General Fund. Scottish Ministers consent is not required for this contribution. Prudent practice is for the local authority to hold HRA reserves (either as a specific reserve or an earmarked part of the General Fund reserves). HRA reserves are the result of years where the HRA income exceeds the HRA expenditure, i.e. a surplus

rather than a deficit. These surpluses (reserves) will therefore be available to apply to the HRA in any year when a deficit arises negating the need for the General Fund contribution.”

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 is £123 million. This is attached in Appendix 1 at pages 16 to 18.
- 3.29 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”.
- 3.30 The Council’s Prudential Indicators will be included within the General Fund Budget report on 6th March 2024.

Business Plan

- 3.31 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 22,772 rented properties held in the Housing Revenue Account (HRA).
- 3.32 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.

3.33 Impact of cost pressures 2023/24 and 2024/25 onwards

The HRA is coming under pressure from the following and this is why we are looking to take a cost of service approach to rent setting and not an inflation plus -

- Pay awards.
- Rent freeze in 21/22 & 22/23 resulting in a loss of £360m (in cash terms) over the 30 years. (Appendix 1, Page 9, shows we were one of the few Local Authorities who implemented a rent freeze for two years)
- Level of spend on voids not reducing due to the high turnover of properties.
- Spend on Repairs & Maintenance increasing year on year, some of this can be attributed to inflation and pay award.

- Spend on Management & Administration increasing, some of this is due to the pay award but also reflects higher level of recharges from General Fund which year on year have been increasing.
- Increasing level of debt charges due to New Build Programme, this could be further stretched by an improvement programme for Multi Storeys and RAAC.
- Funding solutions to address the need to achieve / contribute to net zero for which no grant funding has been identified.

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".

3.34 **Voids**

As of 10th October 2023, 1,974 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 2023/24 of £6.9m compared to a budget of £3.3m.

- 3.35 To address the loss of income from the voids it is proposed that the Chief Officer – Early Intervention and Community Empowerment, in consultation with the Chief Officer – Finance, investigate the feasibility of a potential pilot to reduce the rent of properties which have been void for 12 months. In October a total of 236 voids have been void for 6 months or longer on a weekly basis this is costing £21k on annual basis £1m. If we were to give a 30% reduction in rents on these properties this would lead to a weekly income of £15k annually £720k, it would not be realistic to anticipate all properties would be let at this rent however if 50% were let this would generate £360k of income.

3.36 **Choice Based Letting**

In 2023/24 the Council introduced Choice Based Letting, which allows tenants to make an informed decision about where they would like to live by bidding (registering interest) on our available properties online.

Available homes are advertised on our website each week (called a bidding cycle).

Over 9 weekly bidding cycles have occurred from 27 June to 21 August 2023. there has been an average of 33 properties per week available for applicants to bid on. The 36 new build homes at Cloverhill have also been advertised via Choice Based Letting. To ensure fairness and to prevent applicants having to place multiple bids, only one advert is made per property type/floor level. Therefore only 12 adverts were made for the 36 homes.

Over this period there were 21,641 bids for 304 properties, there have been a total of 1061 applicants bidding online. Every property advertised to date has received bids, with the highest being 243 bids for one property in Linksfield and the lowest was 5 bids for a property in Balnagask.

The early indication is that applicants placing bids themselves are less likely to have a bid withdrawn or to refuse their offer.

3.37 Review of rents for new build properties

Currently the rental on the new build properties are set at the same level as the existing stock and there are a limited number of property types with rental differentials. It is proposed that the Chief Officer – Corporate Landlord, in consultation with the Chief Officer – Finance and the Chief Officer – Early intervention and Community Empowerment, to undertake a review of the rental differentiations per property type, including any premium that may be applied to properties with high energy efficiency levels reporting the outcome to a future meeting of the Communities Housing and Public Protection Committee and thereafter as part of the 2025/26 budget process.

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 2024/25 the financial implications are contained within the report and the attached Appendix.

5. LEGAL IMPLICATIONS

- 5.1 The Housing (Scotland) Act 1987 requires local authorities to maintain a Housing Revenue Account.
- 5.2 The Housing (Scotland) Act 2001 requires local authorities to consult on proposed rent increases.
- 5.3 Aberdeen City Council must comply with the Equality Act 2010 by giving due regard to the needs of the public sector equality duty. An Integrated Impact Assessment has been prepared to assess the impact of the proposed rent increases on persons with relevant protected characteristics.

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?
Strategic Risk	<p>Management of the Housing Revenue Account not achieving intended strategic objectives.</p> <p>Audit, Risk & Scrutiny Committee on 23 March 23 refreshed the Risk Appetite Statement. 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.</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 the Council's pursuit of strategic outcomes.</p>	<p>L</p> <p>M</p>	Yes
Compliance	Non-compliance with Housing Revenue Account Guidance.	Review process undertaken as part of budget process	L	Yes
Operational	Housing Revenue Account should be effective in enabling the	Ensure Best Value is achieved for the 22,772 tenancies.	L	Yes

	most efficient method to provide housing to the 22,772 tenancies and maximising the efficiency of the account to provide Best Value.			
Financial	<p>Every organisation has to manage the financial risks inherent in the operation of large and complex budgets.</p> <p>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.</p>	<p>These risks are minimised by the regular review of financial information by services and corporately by Elected Members.</p> <p>Quantification and review of indicative projects costs by suitable qualified staff or external body, where appropriate.</p>	<p>H</p> <p>M</p>	Yes
Reputational	The reputational risks to the Council are minimised by the regular review of financial information by CMT, the Performance Board and Elected members	All staff and Elected Members advised.	L	Yes

	throughout the Financial year.			
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 with this would create risks.	Risks minimised if report recommendations are approved	M	Yes

8. OUTCOMES

<u>COUNCIL DELIVERY PLAN 2024-2025</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 22,772 tenancies and maximising the efficiency of the account to provide Best Value.
<u>Aberdeen City Local Outcome Improvement Plan 2016-26</u>	
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 22,772 tenancies.
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9. IMPACT ASSESSMENTS

Assessment	Outcome
Integrated Impact Assessment	Required – In the process of being completed.
Data Protection Impact Assessment	Not required.
Other	Not required.

10. BACKGROUND PAPERS

Scottish Housing Network – network indicators 2022-23 and benchmarking from regulators data set 2022-23

Citylets Quarterly report Q3 2023 – Aberdeen

11. APPENDICES

Appendix 1 Draft Housing Revenue Account 2024/25 - 2028/29 Budget

12. REPORT AUTHOR CONTACT DETAILS

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