

## ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Council
<b>DATE</b>	11 December 2024
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Housing Revenue Account Budget 2025/26
<b>REPORT NUMBER</b>	CORS/24/356
<b>DIRECTOR</b>	Andy MacDonald
<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 Housing revenue and capital budget for 2025/26, 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, an increase of 12%, for municipal homes in Appendix 1, page 3 of this report, to take effect from Monday 7th April 2025;
- 2.3 Approve the level of revenue contribution to the Housing Capital budget for 2025/26 as detailed in Appendix 1, pages 22 to 24;
- 2.4 Agree to work towards restoring the working balances to 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 18 to 19, to take effect from Monday 7th April 2025;
- 2.6 Approve, based on a rental increase of 12% the Base Capital Programme for the financial year 2025/26 Appendix 1, pages 22 to 24;

- 2.7 Note the inclusion of the tiered trend analysis of the Housing Revenue Account Budget 2025/26, page 4 in Appendix 1, and the current actions to move spend from Tier 2 Early Intervention to Tier 1 Prevention;
- 2.8 Approve the continuation of the £500,000 Rent Assistance Fund pilot in 2025/26;
- 2.9 Instruct the Chief Officer – Housing in consultation with the Chief Officer – Finance and Chief Officer - Digital and Technology to explore the resource and technical implications for moving from a 48 week to a 52 week rent structure, and to consult with tenants thereafter;
- 2.10 Delegate authority to the Chief Officer - Corporate Landlord, following consultation with appropriate Chief Officers, 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; and
- 2.11 Delegate Authority to the Chief Officer - Corporate Landlord, following consultation with appropriate Chief Officers, to approve a business case and thereafter procure external contractor support to manage backlog voids over a three-year period, financed from the proposed repair and maintenance budget (with capital allocation as required) for a value not exceeding £15 million.

### **3. CURRENT SITUATION**

#### **Projected Out-turn 2024/25**

- 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 HRA budget in 2024/25 has a budgeted deficit of £3.1m (utilising reserves) and is currently estimated to stay within budget. Spend is challenging, as it was in 2023/24, and the HRA continues to plan to utilise its reserves in 2024/25. There are several areas of pressure including potential increases in repairs and maintenance from the cost of materials, voids, and staff costs. The higher costs in these areas will be offset by a reduced contribution to Capital from Current Revenue (CFCR). This is not sustainable and why the tenants were consulted on a 10% rental increase for 2025/26.

#### **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 10 December 2024, taking account of the various system amendments required, the change in rent levels will start on 7<sup>th</sup> April 2025.
- 3.4 Rent consultation was carried out in October 2024 with a closing date of 3 November 2024 for responses. There were a number of questions asked regarding the level of increases overall, potential changes to the rent of new build and to homes of different sizes. Further details are included in Appendix 1, Pages 10 -14.

- 3.5 It was agreed this year not to consult on a longer term rent policy as the 30 Year Business Plan, which was approved on 11 October 2024, was an interim plan pending completion of the Housing Asset Management Model in 2025. The Model will help provide a clear understanding of the HRA requirements for the next 30 years.
- 3.6 We wish to continue to bring forward future annual rent increase decisions from March Full Council meetings to December. This approach ensures that we are in 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 also ensures that we are maximising our rental income and removing potential losses to the HRA.
- 3.7 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.
- 3.8 Items of income that must be credited to the HRA are:
- Council house rents; and
  - 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.
- 3.9 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.

### **Underlying Strategy**

- 3.10 The 30 Year Business Plan presented to Council in October 2024 stated that to achieve a balanced position each year, a contribution towards the capital borrowing and returning the reserve to a sustainable position, would involve rent increases of the following –

Years	Annual % rent increase
1-5	10
6-10	9
11-12	7
13-15	6
16-25	5
26-30	4

- 3.11 Following a review of the underlying costs in 2025/26 and the potential cost pressures which include pay awards, increased employers contribution to national insurance which were not known at the time of completing the Business Plan, it is now estimated that a rent increase of 12% is required in 2025/26 to achieve a balanced position, make a contribution towards capital borrowing and working towards restating the working balance to 10%.
- 3.12 As part of the consultation ACC asked tenants if for the new build properties, a new build premium could be introduced of 15% for those properties handed over to ACC after 1 April 2025 and amend the differential between the bedroom size. The additional income for differentials, along with the new build premium could reduce the overall rent increase of 12% down to 9.2% in 2025/26, However there should be a recognition certain tenants will be incurring multiple increases in their rent if the Council were to implement these options.

## **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 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.
- 3.14 Work on the Local Housing Strategy (LHS) is ongoing with an extensive evidence base collated to inform the strategy. Part of the evidence base for the LHS is the Independent Living and Specialist Housing Provision Market Position Statement (MPS) 2024 – 2034 which has been agreed by the officer Strategy Board. Officers will seek approval from Communities, Housing and Public Protection Committee in early 2025 to begin public consultation on the draft Local Housing Strategy. If production of the LHS continues to progress as anticipated, the final Local Housing Strategy should be published in Autumn 2025.

### **Rental Market**

- 3.15 Average private rents in Aberdeen city stand at £869 per month, up 4.4% year on year at quarter 3 in 2024 however in 10 years the rent has fallen by 18.6%. Within a month 68% of properties are let.
- 3.16 In 1 bedroomed properties the rent has increased by 6.6% and in 4 bedroomed properties the rent has increased by 4.7% year on year.
- 3.17 The current demand for Council housing is borne out by the waiting lists which as of November 2024 have a total of 5613 live applications for a council tenancy. Therefore, this is still an option for many, and demand is the highest for 1 bedroomed properties.

### **Housing (Scotland) Bill- Rental cap proposal**

- 3.18 An amendment to the Housing Bill will set out how rent increases will be capped in areas where rent controls apply, subject to the approval of Parliament, this cap will only apply to Private Rented Properties.
- 3.19 The Scottish Government website states “In response to stakeholder feedback, rent increases would be limited to the Consumer Price Index (a measure of inflation) plus 1%, up to a maximum increase of 6%. If approved, the rent cap will apply to rent increases both during the term of a tenancy and in between tenancies, and will only apply in areas where rent control is applied.”

### **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, Pages 25-27.

### **Ongoing Capital Expenditure**

- 3.21 The draft budget for 2025/26 is attached as Appendix 1. This shows net expenditure of £127 million financed by £120 million of borrowing along with £2 million by way of a revenue contribution and Other Income of £5 million.
- 3.22 This capital budget reflects and includes a rental increase of 12%. The details of the potential projects to be included in this programme are contained in Appendix 1, pages 22 to 24.

### **Reserves & Risk**

- 3.23 The Council has a working balance, the HRA Reserve, which has been built up over several years created from surpluses achieved by the HRA. This reserve is necessary to ensure the HRA is financially resilient and can meet any unforeseen or exceptional circumstances for example inflationary pressures, or the emergence of new risks like RAAC. In the 2024/25 budget it was agreed to utilise £3.161m of the reserves to approve a lower increase in rents, 4.7% instead of 8.5%.
- 3.24 Where a one-off solution, such as the use of reserves, is filling a budget gap, enabling services to continue as currently delivered, for example, then due consideration of the long-term implications must be taken, identifying where and when they are being used and adjusting future financial planning to reflect the decisions taken. The Council’s reserves statement, as approved by the Council in March 2024, identifies that reserves are primarily for financial resilience and financial risk management. The policy of the Council has been to increase the HRA reserve over time without being excessive. That policy has been challenged in 2024/25 by making use of reserves to support the budget. A rental uplift of 12% would allow a small surplus of £626k which would start to build back the working balance which would then continue to support financial resilience and protect the HRA from financial shocks, recognising inflation is a constant.
- 3.25 Based on projected income and expenditure for 2024/25, the opening figure for 2025/26 should be approximately £8.420 million as detailed below:

<b>Movement in Working Balances</b>	<b>£'000</b>	
Working balance as at 1 April 2024		14,189
Less: Earmarked sums (2023/24)		
Housing Repairs	(2,299)	
House Sales – Non RTB	(309)	(2,608)
Uncommitted Working Balances 1 April 2024		11,581
24/25 Use of working balance		(3,161)
Projected Uncommitted Working Balances 1 April 2025		8,420
25/26 Contribution to working balance		626
Projected Uncommitted Working Balances 1 April 2026		9,046

- 3.26 It is proposed the Council works towards restoring the working balance to over 10%, by operating a surplus budget and making an initial contribution of £626,000 in the next year as demonstrated in the table above. The retention of HRA Reserves cannot be understated given the role they play in good financial management, planning and resilience as well as being mindful of the terms that are set out national guidance:

*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 £127 million. This is attached in Appendix 1 at pages 22 to 24.
- 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 were most recently reviewed and presented to the Finance & Resources Committee (CORS/24/307) as part of the Quarter 2 Financial Performance report and will be included within the General Fund Budget report on 5 March 2025.

### **Business Plan**

3.31 An Interim HRA 30 Year Business Plan was presented to Council in October 2024 (link to add) this concluded that the HRA cannot demonstrate that there is financial viability over the 30-year life of the Business Plan without rents increasing by 10% annually in the short term, or a reduced increase in rents paired with changes to the rent value criteria, for example introducing a change to differences in rents between properties and a new build premium. The Business Plan reflects the impact of recent higher than forecast pay, price and construction inflation alongside the continuation of capital investment to upgrade and improve the housing stock. The Plan will be reviewed annually and will be updated to reflect the Housing Asset Management Model that is due to be completed in 2025, which will underpin cost projections for financial year 2026/27 and beyond.

### **Impact of cost pressures 2024/25 and 2025/26 onwards**

3.32 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 based approach -

- Pay awards of 4.27% in 24/25 compared to the budgeted 3%.
- Increase in Employers National Insurance, of approx. £1,000 per employee.
- Rent freeze in 21/22 & 22/23 resulting in a loss of £360m (in cash terms) over the 30 years. (Appendix 1, Page 15, shows we were one of the few Local Authorities who implemented a rent freeze for two years)
- A continuing high level of spend being required on void properties driven by capital works, catch ups, construction costs, inflation and 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, principally due to higher than expected pay awards.
- Increasing level of debt charges due to New Build Programme, this could be further stretched by RAAC and the impact of the Business Case for the Multi Storey Flats (as agreed at Communities, Housing & Public Protection Committee on 21 November 2024).
- Future requirements for spend and decisions to be made in relation to the age and profile of the stock including managing outcomes from properties with RAAC roofs, multi-storey investment and other non-traditional properties.
- Reduced funding from the affordable supply programme specifically for Cloverhill and any future New Build's.
- Funding solutions to address the need to achieve / contribute to net zero and other energy performance improvements required to the stock for which no grant funding has been identified.

3.33 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".

## **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 2025/26 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 Section 25 (4) of the Housing (Scotland) Act 2001, states that a local authority: “..to increase the rents or any other charges payable by all, or any class of, its tenants it must, before giving notice under subsection (1)—  
 (a) consult those of its tenants who would be affected by the proposal, and  
 (b) have regard to the views expressed by those consulted”
- 5.3 Aberdeen City Council must comply with the public sector equality duty as prescribed in the Equality Act 2010. An Integrated Impact Assessment has been prepared to assess the impact of the proposed rent increases on persons with relevant protected characteristics and which will include the results of the consultation.

## 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>	Management of the Housing Revenue Account not achieving intended	Through the Housing Revenue Account Business Plan	L	Yes



	<p>strategic objectives.</p> <p>Audit, Risk &amp; Scrutiny Committee on 12 Feb 24 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>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>	M	
<b>Compliance</b>	<p>Non-compliance with Housing Revenue Account Guidance.</p>	<p>Review process undertaken as part of budget process</p>	L	<b>Yes</b>
<b>Operational</b>	<p>Housing Revenue Account should be effective in enabling the most efficient method to provide housing to over 23,000 tenancies and maximising the efficiency of the account to provide Best Value.</p>	<p>Ensure Best Value is achieved for the 23,000 tenancies.</p>	L	<b>Yes</b>
<b>Financial</b>	<p>Every organisation</p>	<p>These risks are minimised by the</p>	H	<b>Yes</b>

	<p>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>As the age profile of the stock increases there will be increasing repair and maintenance obligations and strategic decisions will be required on some property types. Solutions to this risk will be complicated by high levels of owner occupation.</p>	<p>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>Risk will be quantified through future 30 yr business plan and asset management model. Ongoing statutory compliance and stock survey work will manage short term risk.</p>	M	
<b>Reputational</b>	The reputational risks to the Council are minimised by	All staff and Elected Members advised.	L	<b>Yes</b>

	the regular review of financial information by CMT, the Performance Board and Elected members throughout the Financial year.			
<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

<a href="#"><u>COUNCIL DELIVERY PLAN 2024-2025</u></a>	
	<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 over 23,000 tenancies and maximising the efficiency of the account to provide Best Value.
<a href="#"><u>Aberdeen City Local Outcome Improvement Plan 2016-26</u></a>	
Prosperous Economy Stretch Outcomes	The housing capital programme is delivering works on loft insulation, replacing old/obsolete boilers with modern equivalents, external wall insulation, heat pumps and photo voltaic panels all enhancing the energy efficient of homes which will assist tenants

	with affordable warmth. In addition the HRA Budget in 2024/25 introduced a Pilot Rent Assistance Fund the aim of which is to assist Council tenants facing financial hardship, in 2025/26 looking for approval to continue the Fund.
Prosperous People Stretch Outcomes	<p>The health outcomes for older people, people living with long-term conditions and people with disabilities is enhanced by the provision of accessible and adapted properties. The Strategic Housing Investment Plan includes a wheelchair accessible target of 15% of all new build affordable properties. The council's new build programme has delivered new wheelchair and accessible properties in excess of this target.</p> <p>The Council has a statutory duty to house those who are homeless or at risk of homelessness, with the Council's housing stock playing a key role in providing accommodation.</p>
Prosperous Place Stretch Outcomes	The council new build homes are some of the most energy efficient homes in Aberdeen which will contribute to addressing climate change.
<b>Regional and City Strategies</b>	The HRA is sustainable through the HRA business plan this delivers the sustainability of over 23,000 tenancies.

## 9. IMPACT ASSESSMENTS

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

## 10. BACKGROUND PAPERS

ALACHO Rental uplifts 2425 –and benchmarking from Scottish Housing Regulators data sets

Citylets Quarterly report Q3 2024 – Aberdeen

## 11. APPENDICES

Appendix 1 Draft Housing Revenue Account 2025/26 Budget

Appendix 2 Detailed Draft Housing Revenue Account 2025/26 Budget

## 12. REPORT AUTHOR CONTACT DETAILS

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