



## REPORT TO ABERDEENSHIRE COUNCIL - 22 FEBRUARY 2024

### HOUSING REVENUE ACCOUNT BUDGET 2024/25

#### **1 Executive Summary/Recommendations**

1.1 This report provides the Council with the proposed Housing Revenue Account revenue and capital budgets for the financial year 2024/25 including indicative budgets for 2025/26 to 2028/29.

#### **1.2 The Committee is recommended to:**

**1.2.1 Agree to the Housing Revenue Account (HRA) revenue and capital budgets for 2024/25 as outlined in Appendices 1 and 3, including indicative budgets for 2025/26 to 2028/29, subject to annual review of charges;**

**1.2.2 Agree to maintain a working balance of £2m;**

**1.2.3 Agree to reinstate the HRA Risk & Inflation Reserve to £0.3m;**

**1.2.4 Agree to increase Council House average weekly rents by 5% from 1<sup>st</sup> April 2024, with an annual review thereafter for 2025/26; and**

**1.2.5 Agree to revise other HRA charges and allowances as detailed in Appendix 2.**

#### **2 Decision Making Route**

2.1 The Council has a responsibility to prepare and set a housing revenue budget annually along with a Capital plan in line with their 30-year Business Plan. The budgets should reflect the financial circumstances, planned expenditure, and predicted income for that year. Inherent in this approach is the acknowledgment, acceptance, and mitigation of risk as far as possible.

2.2 In 2021/22 Communities Committee agreed to the formation of a Rent Strategy Member Officer Working Group who recommended a rent increase of 1.5% for 2022/23 together with notional rates of 2.5% and 3% proposed for 2023/24 and 2024/25 respectively, subject to tenant engagement and further consideration by Committee. Recognising the continuing impact of adverse economic conditions, Committee agreed to the establishment of a HRA Business Plan Member Officer Working Group on the 30<sup>th</sup> March 2023, who ultimately determined to proceed to tenant consultation with a range of rent increase options based on a 3-year cycle for consideration following various financial modelling.

	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
<b>Option A</b>	5%	5%	5%
<b>Option B</b>	7.5%	5%	3%
<b>Option C</b>	6%	5%	5%
<b>Option D</b>	3%	7.5%	3%

2.3 Tenants expressed a clear preference for Option A, favouring consistency in rent increase options over a three-year term.

2.4 The rent increase information within this paper was presented to the Communities Committee at its meeting on the 24th January 2024 to discuss the recommendations to increase Council House average weekly rents by 5% for 2024/25 and thereafter by 5% for both 2025/26 and 2026/27 subject to ongoing review of the Business Plan through the Member Officer Working Group.

### **3 Discussion**

3.1 The HRA records expenditure and income associated with Council dwellings provided under the Housing (Scotland) Act 1987. The HRA is a statutory earmarked account whereby all income and expenditure generated from the rent and service charges levied on Council Tenants is to be used to fund the maintenance and management of Council houses to the benefit of tenants. It is a statutory requirement that this account remains 'ring-fenced' and is accounted for separately from the Council's General Fund.

3.2 The affordability of the revenue and capital budgets are monitored through inclusion of expenditure and income within the Housing 30-year Business Plan with a maximum affordability limit set at 40%. This means that over the 30-year period of the plan borrowing will not exceed a level whereby more than 40% of the rental income is required to cover debt charges (or 40p in every £1 collected in rent).

3.3 Other housing services that do not relate to Council-owned housing are provided for in the General Fund budget. These include Homelessness, Improvement and Repairs, Sheltered Housing Support, Gypsy Travellers, Community Safety and Affordable Housing. Budgets for these services will be considered as part of the General Fund Revenue budget setting which is also being discussed on this agenda.

3.4 The proposed HRA Revenue Budget is detailed in **Appendix 1**. This budget should provide a level of housing services expected by the Council Tenants and in accordance with statutory requirements. The 2024/25 budget includes:

- £22.9m for the responsive and cyclical maintenance of 13,207 properties being Aberdeenshire Council's housing stock;
- £71m of income from tenant rents and charges which includes an increase in rents of 5%, and an inflationary increase of 3.9% to all other charges;
- £50.3m for the HRA capital programme including the Housing Improvement Plan (HIP) which will deliver planned stock improvements.

3.5 The Housing Scotland Act 2001 introduced a statutory requirement in relation to consultation with tenants which included a requirement to consult on proposals to increase rents and other charges. The results of a detailed independent consultation process were reported to Communities Committee in January 2024, where members agreed to propose an increase in rents of 5%.

3.6 A 5% increase in rental charges for 2024/25 results in an average weekly increase of £4.46 as detailed below:

Current Average Weekly Rent	Proposed Average Weekly Increase	Proposed Average Weekly Rent	Current Annual Pound per Point Factor	Proposed Annual Pound per Point Factor (2024/25)
£88.00	£4.46	£92.46	£11.08	£11.64

3.7 The current rent setting scheme is a point-based system, linked to physical characteristics and attributes of each property with an annual pound per point factor calculated as detailed above.

3.8 The establishment of the HRA Business Plan Member Officer Working Group, outlined in 2.2, has ensured a comprehensive level of additional oversight in destabilising economic conditions, with the aim of maintaining Business Plan viability. The Member Officer Working Group will continue to examine options for service delivery in this context with tenant representation included in all discussions. A Consultation Strategy developed by the Group has also ensured wider engagement with all stakeholders.

3.9 Due to the nature of budget setting and uncertainties surrounding future events, budget assumptions form an inherent part of the process. All assumptions carry a degree of risk that, should the actual circumstances differ from the assumption, there may be a resultant budgetary variation.

3.10 The revenue budgets have largely been set in line with assumptions made within the Council General Fund Budget. Staffing budgets provide for the average 5.5% pay award agreed in 2023/24 and a further budgeted increase of 3% for 2024/25. As the Local Government pay agreement was only for 1 year, and no agreement has been made for 2024/25 or future years, any future agreement above 3% would result in a budget pressure which would require to be funded in-year. An additional 1% would result in a budget pressure of around £114,000.

3.11 The business plan includes budget assumptions about the cost of borrowing and interest earned on cash balances. Given the current uncertainty in the financial markets, impacts of inflation and the reliance placed on borrowing to fund the capital upgrade programme and deliver additional units, the business plan is no longer considered affordable in the longer term. The business plan is being reviewed by the Member Officer Working Group (MOWG) to ensure future viability.

- 3.12 Borrowing requirements will be reviewed on a regular basis and monitored closely throughout the year to enable action to be taken at an early stage, should this prove necessary, to address any financial concerns. Annual updates will be provided within each budget report with potential adjustments to future years' budgets and capital projects being made in accordance with borrowing availability and reported as part of the budget setting process each year.
- 3.13 The capital programme is no longer considered to be affordable in its current form due to the financial impacts discussed above. This means that there is a substantial risk that projects will be delayed or not be delivered at all unless the programme is updated. The capital programme and funding will be reviewed as part of the business plan to ensure that it is deliverable and affordable to the HRA over the longer term.
- 3.14 Reserves are an essential part of good financial management and can be held for the following purposes:
- To provide a working balance to smooth out uneven cashflows and avoid unnecessary temporary borrowing;
  - Protect against the financial impact of unexpected events or emergencies;
  - Enable funds to be put aside in Earmarked Reserves for known or predicted future financial commitments.
- 3.15 It is considered prudent to maintain a reserve to offset any inflationary pressures that may arise in 2024/25 above what has been budgeted for.
- 3.16 Updated revenue budgets are attached as Appendix 1 to this report with updated capital budgets attached at Appendix 3. As noted above, the business plan is no longer considered affordable as the cost of borrowing will exceed the 40% prudential limit in future without significant changes. Therefore, work will continue to review the business plan and identify a viable model to ensure affordability across the 30-year life of the plan.

#### **4 Council Priorities, Implications and Risk**

- 4.1 This report helps deliver all six of the Council's priorities and the key principle that underpins them of responsible financial planning.

<b>Pillar</b>	<b>Priority</b>
Our People	Learning for Life Health & Wellbeing
Our Environment	Climate Change Resilient Communities
Our Economy	Economic Growth Infrastructure and public assets

Underpinning the Priorities are a number of key principles. They are: right people, right places, right time; responsible finances; climate and sustainability;

Community Planning Partnership Local Outcome Improvement Plans; human rights and public protection; tackling poverty and inequalities; digital infrastructure and economy.

This report helps deliver the Strategic Priorities ‘Tackling Poverty and Inequalities’ and ‘Responsible Finances’.

This report also helps deliver some of the priorities within the Aberdeenshire Local Housing Strategy (2018 – 2023), namely -

- Fuel Poverty, Sustainability and Energy Efficiency: fuel poverty to be reduced for all households as far as is reasonably practicable. This report helps by assisting households to maximise their income.

4.2 The table below shows whether risks and implications apply if the recommendations are agreed.

Subject	Yes	No	N/A
Financial	X		
Staffing		X	
Equalities and Fairer Duty Scotland	X		
Children and Young People’s Rights and Wellbeing		X	
Climate Change and Sustainability		X	
Health and Wellbeing		X	
Town Centre First		X	

4.3 There are no staffing implications. There are financial implications which are inherent in the report and are built into the base budgets at **Appendix 1** and **Appendix 3**.

4.4 An integrated impact assessment has been carried out as part of the preparation of this report and the potential outcome of today’s decision. It is included as **Appendix 4** to this report.

4.5 The following Risks have been identified as relevant to this matter on a Corporate Level:

- **ACORP001 - Budget Pressures** – there is increasing pressure on the HRA Business Plan over the long term to manage and maintain existing stock whilst delivering a substantial capital programme and keep rents at an affordable level for tenants. Any increase in revenue expenditure will reduce the ability to fund the capital programme which may increase the requirement to borrow and the costs associated with this. The budget has been set within the affordability limits of the Business Plan. The risk of veering from this plan will be monitored throughout the year with quarterly revenue and capital monitoring reports to Communities Committee.

- **ACORP002 - Changes in Government Policy, legislation and regulation** – the Council is required to adhere to relevant regulations and standards as set out by the Scottish Government. There are risks associated with not achieving these standards balanced with the risks associated with the high cost of delivering the works.

## **5 Scheme of Governance**

- 5.1 The Head of Finance and Monitoring Officer within Business Services have been consulted in the preparation of this report and their comments are incorporated within the report and are satisfied that the report complies with the Scheme of Governance and relevant legislation.
- 5.2 The Committee is able to consider and take a decision on this item in terms of Section A.1.2 and A.8.1 of the [List of Committee Powers in Part 2A](#) of the Scheme of Governance as it relates to the setting of rents and other charges related to housing and the setting of the HRA Capital Budget.

**Alan Wood**  
**Director of Environment & Infrastructure Services**

Report prepared by Fiona Massie, Team Leader  
Date 8 January 2024

### **List of Appendices**

- Appendix 1** - Housing Revenue Account (HRA) Revenue Budget 2024/25  
**Appendix 2** - HRA Charges and Allowances  
**Appendix 3** - HRA Capital Programme 2024-2029  
**Appendix 4** - Integrated Impact Assessment