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**REPORT TO: MEETING OF MORAY COUNCIL ON 28 FEBRUARY 2024**

**SUBJECT: HOUSING REVENUE ACCOUNT (HRA) BUDGET PROPOSAL  
2024/25**

**BY: DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT AND  
FINANCE)**

**1. REASON FOR REPORT**

1.1 This report presents details of the proposed Housing Revenue Account (HRA) Budget Proposal for 2024/25 for approval.

1.2 This report is submitted to Council in terms of section (II) (1) of the Council's Administrative Scheme relating to the setting of rent levels for council houses, garages etc.

**2. RECOMMENDATION**

**2.1 It is recommended that the Council:**

- (i) considers and notes changes since the Housing Business Plan was reviewed in 2022 and the proposed review of the business plan in 2024/25, as detailed in section 3;**
- (ii) considers and notes details of the rent restructure which has been undertaken, as detailed in section 4;**
- (iii) agrees the proposed HRA Budget for 2024/25 (APPENDIX I) and Housing Investment Plan (APPENDIX II), including the level of HRA reserves in line with the Housing Reserves Policy as detailed in paragraph 7.13;**
- (iv) considers and notes the results of consultation with tenants on options for the 2024/25 rent increase as detailed in section 6;**
- (v) agrees Council house rents increase of 7.7% for 2024/25;**
- (vi) agrees that garage rents are increased by 7.7% for 2024/25;**
- (vii) agrees that grass cutting charges are increased by 7.7% for 2024/25;**

(viii) agrees provision of £200k for service developments, as detailed in paragraph 8.17; and

(ix) notes the three-year projection to 2026-27 (APPENDIX III).

### **3. HRA BUSINESS PLAN**

#### **BACKGROUND**

- 3.1 The Housing Business Plan was first developed in 2005 when Councils were required to demonstrate that they had the financial means to improve their housing stock to meet the Scottish Housing Quality Standard (SHQS). At that time, Moray Council's Business Plan was developed by Arneil Johnston Consultants, working alongside Council staff.
- 3.2 The Business Plan assesses the affordability and feasibility of Council plans in relation to housing over a 30-year period. It considers risk scenarios and tests the affordability of the Plan against these potential risks. The Business Plan is reviewed on a three-year cycle and provides the assurance that the Council is able to fund its housing activities within the constraints of the accounting regime for housing.
- 3.3 The Business Plan was last fully reviewed in 2022 and was reported to Moray Council on 22 February 2022 (paragraph 5 of the minute refers). The 2022 Review identified that the Council could afford to build 50 new properties per annum over the next 3 years based on a rent increase of CPI plus 1%.
- 3.4 Although the Business Plan was not due to be substantively reviewed for a further two years, given the extent of macro-economic changes over the past two years, notably the significant increases in inflation and interest rates, a limited interim review was undertaken in 2023 to ensure the impact of these material changes are adequately considered when setting the budget and planning for future years.
- 3.5 The sustained increase in borrowing costs, comprehensive restructure of rents and accelerated investment programme represent material changes to some of the assumptions which underpinned the Business Plan, therefore provision will be made to commence a review in 2024, to be considered when setting the budget in 2025.

### **4. RENT RESTRUCTURE**

- 4.1 The Council's Rent Setting policy has been in operation since 2006. Subsequent reviews in 2010 and 2013 related to the new build premium only. In 2021, as part of the HRA Business Plan review, Arneil Johnston were commissioned to analyse the level of rents and inconsistencies in the current rent structure. This review identified that the Council's current rent structure had 386 different rent levels with wide variations in the rent values, with a lack of consistency in rent levels across property sizes.

- 4.2 At its meeting on 21 November 2023, Housing and Community Safety Committee (Paragraph 10 of the Minute refers) was informed of the rationale and requirement for a revised rent setting structure which would:
- provide a fair, consistent, transparent and accountable model for setting rents;
  - ensure that rents are affordable for tenants;
  - generate the income required to support investment; and
  - ensure that the Housing Revenue Account (HRA) remains financially viable.
- 4.3 Committee was advised that as part of the review process, all Council tenants were contacted and invited to provide feedback, via the completion of a questionnaire, on the principles of rent restructuring and to give their opinions on the potential property characteristics which could be considered for rent setting and on the methodology for applying service charges. Tenant feedback was used to inform the review process and the restructure of the rent setting framework.
- 4.4 The revised rent structure set out in the revised Rent Setting policy used to calculate the weekly rent adopts a combined approach, which uses a minimum baseline rent, varied using a points-based scheme, based on the attributes relevant to the property. The number of different rent levels will decrease from 386 to 28, whilst the ratio of properties to each rent level will increase from 28 to 227.6.
- 4.5 The baseline rent has been developed around the rental charge for a two-bedroom, semi-detached property, which is the most common property size and type in the Council housing stock. The points-based scheme is calculated according to values awarded to the characteristics and amenities of each property, which are applied uniformly. The attributes which are taken into account are:
- Property size (number of bedrooms)
  - Property type (e.g. house or flat, mid or end terraced, detached or semi-detached, etc.)
  - Energy rating (based on the Energy Performance Certificate (EPC) rating)
  - Parking (private or shared parking)
  - Additional toilet
  - Garden (private or shared)
  - Sheltered housing (heating charge applicable to Larch Court, Elgin only)
- 4.6 The consultation process ran from 22 November 2023 until 5 January 2024 and a briefing for Elected Members took place on 5 December 2023, prior to the consultation feedback being reported to Housing and Community Safety Committee for approval of the revised structure on 13 February 2024. Following Committee's approval of the revised Rent Setting Policy, arrangements will be made to enable a "go live" date of 1 April 2024, in line with rent setting for 2024/25.

## **5. HOUSING INVESTMENT PLAN**

- 5.1 The proposed Housing Investment Plan for 2024/25 – 2026/27 is detailed in **APPENDIX II**.
- 5.2 The Housing Investment Plan reflects the investment priorities which tenants identified within the most recent tenant survey and regulatory requirements. The Council has also recently undertaken a stock condition survey to direct future investment in our properties, including replacement of older/inefficient heating systems as well as delivery of other home improvements (i.e. new kitchens, bathrooms, windows, etc.).
- 5.3 The Business Plan provides for the level of investment required to meet Scottish Housing Quality Standard (SHQS) and Energy Efficiency Standard for Social Housing (ESSH) standards. This indicates that the level of investment activity will increase significantly in future years and a project board is being constituted to coordinate and monitor the planning and expanded capacity needed to deliver the enhanced output. Projections in this area will remain subject to economic influences and supply chain variables, however being managed as a multi-year programme, this oversight will manage fluctuations in cost and availability. This may, however, lead to single year variances within the overall programme, which is typical of a multi-faceted plan of this scale and complexity.
- 5.4 In addition to the routine repairs and maintenance of the Council's housing stock, the key focus of the Housing Investment Plan remains on investing to meet the provisions of the SHQS and the ESSH.
- 5.5 Whereas the Council is generally performing well as a landlord across the range of benchmarked performance indicators, there is an identified need for improvement in relation to SHQS and ESSH.
- 5.6 As at 31 March 2023, 15% of our stock met SHQS, compared with 61% of our peer group, 71% for local authorities and 79% for all benchmarked landlords (including housing associations). Moray Council's performance had dropped from over 90% in 2020/21 following an enhancement of the standard to include both the energy efficiency provisions of ESSH and in 2022/23 further enhancements in relation to fire safety and electrical safety certification. Accordingly, the Council's attainment fell significantly against the higher standards and remedial programmes have been developed to improve this position.
- 5.7 A programme of electrical inspection and certification to meet the enhanced requirements of SHQS has been undertaken in the course of 2023/24, with an improvement plan reported to Housing and Community Safety committee on 21 November 2023, projecting a milestone of 55% compliance by 31 March 2024 and completion by 30 November 2024.

5.8 The second key component of SHQS which requires improvement is EESSH. As at 31 March 2023, 62% of our stock met EESSH, compared with 87% of our peer group, 88% for local authorities and 91% for all benchmarked landlords. An improvement plan is being developed to accelerate delivery of energy efficiency programmes, which will significantly improve this position in 2024/25 with the aspiration of bringing performance in line with the above local authority benchmark by the end of the reporting year and accordingly an increased budgetary provision has been allocated for this purpose. Whilst the budget has been set based on realistic output levels, should market capacity to deliver in excess of this be established within the budgetary year, the service may seek additional approval in order to optimise deliverable improvements for tenants.

## **6. RENT INCREASE CONSULTATION**

6.1 Section 25 of the Housing (Scotland) Act 2001 allows landlords to increase rent (or any other charge payable) under a Scottish secure tenancy so long as they give tenants at least four weeks' notice of the increased rent due to be paid. Before they issue this notice, landlords must consult with tenants affected by the proposal and be able to demonstrate how they have taken regard of their views in reaching a decision about rent increases.

6.2 The HRA Business Plan is predicted upon annual rent increases being above the rate of inflation, based on the Consumer Price Index (CPI) + 1%. This represents a 7.7% increase to Council house rents (an average weekly increase of £5.20). In order to meet the HRA Business Plan requirements and ensure continued financial viability, it was determined that the Council consult tenants on options which were equivalent to and above this amount.

6.3 The consultation for 2023/24 ran from 22 November 2023 until 5 January 2024, with surveys issued to all tenants by letter or email according to their communication preference.

6.4 Tenants were invited to express their preference for one of two options based on what each option will allow us to deliver:

Option one – 7.7% i.e. CPI + 1%

Option two – increase rents by 11% i.e. Business Plan optimum

6.5 A total of 659 responses were received, representing a 10.6% response rate, which is in line with previous years:

562 tenants (87.3%) opted for Option one – 7.7%

82 tenants (12.7%) opted for Option two – 11%

6.6 Given the clear preference for option one, this is the recommended rent increase for 2024/25.

6.7 Based on this rent increase and the revised rental structure, the Council's rents will remain the lowest amongst local authority landlords and will continue to be affordable across the range of property types and sizes. The forthcoming business plan review will also ensure the rental income is sufficient to maintain statutory requirements and tenant aspirations.

## **7. PROJECTED HRA OUTTURN 2023/24**

7.1 On 1 March 2023, the Council agreed its HRA Budget for 2023/24 (paragraph 5 of the Minute refers). Reports on budgetary performance have been presented to Housing and Community Safety Committee throughout 2023/24.

7.2 The most recent HRA budget monitoring report presented to the Housing and Community Safety Committee on 21 November 2023 (paragraph 12 of the minute refers) identified the main variations in the projected outturns to 31 March 2024, which have subsequently been updated with the most recent position as follows:-

### **Expenditure**

#### **Supervision and Management**

7.3 Supervision and Management - An underspend of £189k is projected. This variance results from projected underspend in staffing costs (£139k) and a reduction in void costs (£50k).

#### **Sheltered Housing**

7.4 There is a projected underspend of £5k anticipated arising from energy costs.

#### **Repairs and Maintenance**

7.5 An underspend of £452k is projected. This is comprised of underspends of £1,024k in planned/cyclical maintenance and £16k in response repairs, partially offset by overspends in voids (£274k), DLO deficit (£244k) and property fees (£70k). The main component of this underspend is the profiling of the electrical certification, which commenced later than anticipated due to market capacity to deliver and is now profiled to complete later in 2024.

#### **Financing Costs**

7.6 An overspend of £238k is projected due to estimated higher interest costs on borrowing.

#### **Bad and Doubtful Debts**

7.7 No variance is projected.

#### **CFCR**

7.8 The level of Capital from Current Revenue (CFCR) is projected to be £765k higher due to underspends elsewhere across the HRA budget, which will offset anticipated borrowing.

#### **Downsizing Incentive Scheme**

7.9 An underspend of £9k is projected, which reflects an increase in activity compared to recent years. This represents an improved level of activity, following a considerable reduction during the pandemic period.

### **Service Developments**

- 7.10 No variance is projected, with the remaining balance being utilised to facilitate the rent campaign in March 2024.
- 7.11 Total expenditure on the HRA is projected to be £348k lower than budgeted.

### **Income**

- 7.12 Total income to the HRA is projected to be £348k higher than originally budgeted for 2023/24, with £317k additional interest on revenue balances projected due to the higher interest rates and other income of £79k partially offset by £48k lower rental income due to the delayed completion of new build properties in Keith and a discount being applied to temporary accommodation rentals.

### **HRA reserves**

- 7.13 Overall, a surplus balance of £2.250m is projected for the HRA budget in 2024/25. This is determined as a prudent level of reserves under the terms of the Housing Reserves Policy approved by Housing & Community Safety Committee on 15 November 2022, incorporating:

- £500k - minimum policy provision;
- £500k - risks associated with the development programme in current market conditions;
- £750k – risks associated with the housing investment programme in current market conditions; and
- £500k – provision for inflation, including any additional pay award or other cost increases in 2024/25.

## **8. PROPOSED HRA BUDGET 2024/25**

- 8.1 As in previous years, Officers have considered in detail the base budget agreed for 2024/25. Each cost centre within the HRA budget is scrutinised by the Head of Housing and Property, Finance staff and the budget service managers and this has included an assessment of the continued impact of economic conditions on both income and expenditure.

- 8.2 **APPENDIX I** details the proposed HRA Budget for 2024/25. Comments on the proposed budget can be made as follows:-

### **Expenditure**

- 8.3 The total expenditure proposed amounts to £26.190m. The main areas of expenditure are considered below.

### **Supervision and Management**

- 8.4 The budget proposed for supervision and management costs is £6.081m. This provides for a 3% pay award and also incorporates estate caretaker and housing support resources previously funded from the general services budget.

### **Sheltered Housing**

- 8.5 The Sheltered Housing Budget is increased to £0.064m for 2024/25.

### **Repairs and Maintenance**

- 8.6 Proposed revenue expenditure for Repairs and Maintenance of £9.694m represents a £1.002m decrease on 2023/24, reflecting the reduction in electrical upgrades following the progress made with electrical circuit testing and that roof and fabric repairs will be funded within the capital programme in future. Capital expenditure for Planned Maintenance & Investment Programmes and Improvements of £18.854m is included in the Housing Investment Plan, summarised in **APPENDIX II**. These budgets make provision for typical levels of activity as well as the strategic investment priorities.

### **Garages**

- 8.7 Charges in relation to garages provided by the HRA have previously been reviewed bi-annually. Given the current rate of inflation, it is intended that these charges are subject to an annual uplift of 7.7% in line with house rents and thereafter subject to annual review.

### **Grass Cutting**

- 8.8 Grass cutting charges are subject to annual revision and it is proposed that these will be updated at the same rate as rents, therefore by 7.7%.

### **New Build Housing Programme**

- 8.9 The Scottish Government has identified affordable housing as a key national strategic priority and committed to fund the building of 110,000 affordable housing by 2032.
- 8.10 Following wide consultation with stakeholders, the Local Housing Strategy 2019-24 was agreed by Communities Committee on 2 April 2019 (paragraph 8 of the minute refers). The key objectives of increasing the supply of affordable housing and tackling homelessness are included in the Council's Corporate Plan 2023. The Housing Need and Demand Assessment 2023 (HNDA) suggests that 3,827 new affordable houses are required over a 20-year period to address existing and projected housing need in Moray.
- 8.11 Expenditure of £13.037m is budgeted for in relation to the new build programme for 2024/25, with £34.952m and £16.519m allocated for 2025/26 and 2026/27 respectively, representing the anticipated schedule of forthcoming developments.
- 8.12 On 15 November 2022, the Housing and Community Safety Committee approved the Council's Strategic Housing Investment Plan (SHIP) (paragraph 10 of the Minute refers). In accordance with Scottish Government guidance, the SHIP over-commits on available grant funding. The SHIP includes several projects assigned to the Council's own development programme, and several projects which are unassigned. The HRA Business Plan 2022 made provision for 50 Council house completions per year. Given there is some uncertainty with regards to the capacity of the local housing associations to develop, it can be assumed that the scale of the Council's house building programme will be a key factor in ensuring that the available resources are fully utilised in Moray. Developments which are in the pipeline are continuing to progress, with 245 units included in the Business Plan between 2023/24 and 2027/28.

Individual projects will, however, be subject to value for money assessments until fully committed, to ensure they remain affordable. The HNDA output will direct funding priorities in subsequent years and in line with the previous Business Plan finding that continuing with a development/acquisition programme of 50 properties per year actually reduces the debt affordability %, albeit with a higher debt per unit, it is envisaged this level of output remains realistic and prudent.

- 8.13 Open market acquisition of properties will be considered under the provisions of the SHIP in relation to strategic priorities including maintenance of flatted blocks for which the Council has responsibility and meeting the needs of specific applicants. Any such investment decisions will be predicated on a value for money assessment and consideration of impact on the HRA Business Plan assumptions. Provision for around 12 units in 24/25 and a further 12 in each of 25/26 and 26/27 has been made within the Business Plan and the SHIP.

#### **Financing Costs**

- 8.14 Financing costs are projected at £7.188m for 2023/24. This is an increase of £2.005m when compared to the previous year's budget, by consequence of the increased cost of borrowing. An objective of the forthcoming Business Plan review will be to undertake benchmarking with other local authorities in relation to HRA borrowing costs.

#### **Capital from Current Revenue (CFCR)**

- 8.15 CFCR enables the Council to utilise available revenue resources to help fund capital projects and reduce the requirement for prudential borrowing. The Housing Investment Plan sets out the repairs and maintenance priorities for 2024/25. These will be financed through the HRA revenue and capital budgets. For 2024/25, it is proposed to set CFCR at £2.641m to allow the Council to maintain an HRA balance of £2.250m at year end.

#### **Downsizing Incentive Scheme**

- 8.16 It is proposed to maintain the annual budget for the Downsizing Incentive Scheme at £72k for 2024/25.

#### **Service Developments**

- 8.17 Service developments of up to £200k have been included in the budget for 2024/25 to make provision for emergent priorities, including a refresh of the HRA Business Plan and continuation of the Tenant Assistance Fund which is being piloted in March 2024. Specific details will be reported to service committees in the course of the reporting year.

#### **Income**

- 8.18 Rental income is the primary source of income for the HRA. The HRA must balance (or the deficit must be funded from General Services). The level of income generated within the HRA continues to influence what the Council can fund with regards to its housing activities. Rent collection rates remain in the upper quartile compared with other local authority landlords.

## 9. **SUMMARY OF IMPLICATIONS**

### **(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))**

The provision of new affordable housing, the maintenance of the Council's housing stock and dealing with homelessness are priorities identified within the Corporate Plan, the Council's Local Housing Strategy, the Strategic Housing Investment Plan (SHIP) and the Housing and Property Service Plan.

### **(b) Policy and Legal**

Proposed approaches to reviewing the rent setting policy and temporary accommodation charging policy are set out within this report and will be subject to further detailed consultation and reporting to service committees in the course of the year. There are no legal implications arising from this report.

### **(c) Financial Implications**

The 2022 Business Plan review provides for the legislative work programmes that the Council will be required to deliver in future years and sets a rental framework within which it can be sustainably delivered. It concluded that an increase of CPI + 1% would ensure that the Council's housing activities remain fundable and affordable. The Business Plan will be reviewed given the extent of investment activity and changing market conditions.

### **(d) Risk Implications**

The 2022 Business Plan review included detailed risk assessment and sensitivity analysis, which demonstrated that the HRA remains within acceptable limits under the range of scenarios tested. Given the extent of economic uncertainty, this position will be reviewed in the course of 2024.

### **(e) Staffing implications**

There are no direct staffing implications arising from this report.

### **(f) Property**

None.

### **(g) Equalities/Socio Economic Impact**

There are no equalities/socio economic impacts arising from this report. The uplift in temporary accommodation charges does not require an EIA to be undertaken, however the proposed comprehensive policy review will necessitate a full impact assessment once progressed.

### **(h) Climate Change and Biodiversity Impacts**

Delivery of the Housing Investment Programme will make a significant contribution to meeting EESSH standards within the Council's stock, thereby reducing energy ratings and carbon emissions. Similarly, the Council's affordable housing supply programme is predicated on delivering low-carbon developments.

**(i) Consultations**

This report has been prepared in consultation with Finance staff. Consultation on this report has also been carried out with the Chief Financial Officer, the Head of Governance, Strategy and Performance, Democratic Services Manager and Senior Managers within the Housing and Property Service and any comments received are reflected in this report.

**10. CONCLUSION**

**10.1 This report presents the HRA Budget proposals for 2024/25. It also includes a three-year financial projection to 2026/27. Following consultation, a rent increase of 7.7% is recommended for 2024/25, in line with the revised rent structure.**

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