REPORT TO: MORAY COUNCIL ON 27 NOVEMBER 2019

SUBJECT: HOUSING BUSINESS PLAN REVIEW 2019 AND PREPARATION FOR THE HRA BUDGET SETTING 2020/21

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

1. REASON FOR REPORT

1.1 This report presents a summary of the findings of the Housing Business Plan Review which has recently been completed. The report also considers the implications of this review for the budget preparation work to be carried out prior to presentation of the draft HRA Budget 2020/21 for Council's consideration in February 2020.

1.2 This report is submitted to Council in terms of the Section III H (1) of the Council's Administrative Scheme relating to long term financial planning in the discharge of the Council's housing functions.

2. RECOMMENDATION

2.1 It is recommended that the Council:-

(i) considers the main findings of the Housing Business Plan 2019 Review and notes that housing activities must remain fundable and affordable within the constraints of the accounting regime for housing;

ii) agrees to reduce council new build provision from 70 to 50 units per annum in order to ensure that all housing activities remain fundable and affordable;

iii) agrees to increase housing rents by 3% in 2020/21 in order to ensure that all housing activities remain fundable and affordable;

iv) agrees to consult with tenants from 28 November 2019 to 10 January 2020 on the proposed rent increase for 2020/21; and

(v) agrees that the views of tenants are included within the Housing Revenue Account Budget for 2020/21, due to be presented to Council in February 2020.

3. 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, the Business Plan was developed by Arneil Johnston Consultants, working alongside Council staff. 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 dangers. 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.

3.2 The Business Plan was last reviewed in 2016 and was reported to Moray Council on 7 December 2016 (paragraph 9 of the minute refers). The 2016 Review identified that the Council could afford to build 70 new properties per annum over the next 3 years based on annual rent increase of 4%. The increase in new build provision however could only be sustained for a maximum period of 3 years, based on the affordability of the Business Plan. Following a consultation exercise with tenants, the 4% increase took effect from 1 April 2017 and was originally intended to endure until 2019/20.

3.3 In 2018, the Council surveyed all 5,909 tenants to gather feedback on the housing services they received. A return rate of 40% was received making this a robust and creditable survey. In terms of affordability, the main issues raised by tenants were as follows:

- 8.4% of tenants not in receipt of full housing benefit stated that their rent is difficult or very difficult to afford;
- 34% of tenants indicated that their rent is just about affordable; and
- 45.2% of tenants stated that they have experienced fuel poverty over the last 12 months. Ideally, tenants wanted to put their heating on but could not afford to do so.

3.4 In response to these findings, the Head of Service and key staff from Housing and Finance reviewed the financial assessment model that was previously completed as part of the Business Plan (2016). A number of factors during the previous 2 years including the increased use of Capital from Current Revenue (CFCR); lower interest rates; and lower than expected rent arrears reduced the anticipated levels of risk that were previously predicted in the 2016 financial model. Consequently, it was decided not to apply a rent increase for 2019/20 and this decision was ratified by Council on 27 February 2019 (paragraph 6 of the Minute refers).

4. HOUSING BUSINESS PLAN REVIEW 2019

4.1 The 2019 Review has confirmed that the Council's Housing Business Plan remains fundable and affordable and can continue to facilitate effective and efficient service delivery to Council tenants, whilst providing a sustainable investment framework. The review has considered risk factors that might impact on the Business Plan and recommends an increase in void rent loss from 0.6% to 1% and an adjustment for bad debts from 1.31% to 2%. Overall, the analysis indicates that the Housing Business Plan can withstand key risks, should they materialise.

4.2 The 2019 Review findings show that:-

- Moray Council rent levels remain the lowest in Scotland;
- rent arrears levels are below the national average;
- void rent loss is below the national average but is on an upward trend;
- staffing costs are on par with the national average;
- repairs expenditure per house is higher than the national average;
- loan debt per house is below the national average; and
- loan charges are below the national average.

4.3 The 2019 Review concludes that the Council represents one of the best performing Scottish local authorities in relation to rent levels and the management of rent arrears. It also performs well against national benchmarks for debt per unit and associated loan charges. As well as good performance, the Review highlighted some areas for improvement – particularly with regards to repairs and maintenance costs and void rent loss.

4.4 The ‘debt affordability’ indicator which measures the amount of rent which goes towards the repayment of loan charges remains comfortably below the maximum affordability level set within the business plan at 35%. The plan sets a maximum debt affordability percentage of 35%, as a prudent level. This equates to 35p in every £1 raised in rents being expended on loan charges. On average, the Council’s affordability limit is currently 20% and based on future investment projections is unlikely to exceed 23% throughout the 30 year lifecycle of the Business Plan. The Council’s uses a higher proportion of CFCR (25%) than the national average (19%). This helps to reduce the Council’s borrowing costs and keep the debt affordability indicator well within the maximum limit.

4.5 The 2019 Review therefore provides the Council with some assurances around the feasibility of current investment priorities.

5. <u>KEY RISKS</u>

5.1 The main risks to the HRA remains increases in:

- rent arrears;
- bad debt provision;
- supervision and management costs;
- interest rates;
- construction costs; and
- an under-estimation in the Capital Investment Programme.

5.2 The 2019 Review considered each of the above risks based on their potential impact should costs increase. It concluded that the Housing Business Plan can absorb each of these risks and still remain affordable. The Review also considered multiples of risk and again concluded that the plan remained affordable but as each risk was factored into the business plan model, the debt affordability was pushed closer to the limit of 35% but did not exceed this.

6. NEW BUILD HOUSING PROGRAMME

6.1 The Scottish Government has identified affordable housing as a key national strategic priority and committed to fund the building of 50,000 new affordable homes over a 5 year period ending March 2021. The current resource assumption for Moray is £9.08m in 2019/20 and £9.633m in 2020/21. However, the Government has indicated that the resource assumption is the minimum that can be expected and the Council should be prepared to accelerate the programme to take account of further funding allocations.

6.2 The Council’s Local Housing Strategy (LHS) sets out the Council’s objectives in relation to housing for the period 2019 to 2024. Following wide consultation with partners and tenants, the strategy was agreed by the 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 Needs and Demand Assessment completed in 2019 indicated that 424 new affordable houses are required per annum over a 10 year period to address current and projected housing need in Moray.

6.3 The Council’s Strategic Housing Investment Plan (SHIP) approved by the Communities Committee on 5 February 2019 (paragraph 6 of the Minute refers), makes provision for 502 Council house completions from 2019-2024. This is subject to Business Plan capacity but does give an indication of the potential number of houses that can be delivered on the basis of development opportunities and funding levels available over the lifecycle of the SHIP. 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 housebuilding programme will be a key factor in ensuring that the available resources are fully utilised in Moray.

6.4 The new build programme is primarily financed through prudential borrowing. This affects both the debt burden and the ‘debt affordability’ indicator. The 2019 Review has confirmed that the new build programme if reduced from 70 to 50 units per annum remains affordable on the assumption that there will be no major shift in relation to any of the key risks identified within Section 5 of this report.

7. RENT MODELLING

7.1 The level of council house rents in Moray is well below the national average. This must be viewed in the context that Moray remains a low wage economy. Rental income is the primary source of income for the Housing Revenue Account (HRA). In addition, the HRA must balance (or the deficit must be funded by General Services). Therefore, the level of income generated within the HRA will significantly influence what the Council can fund in terms of its housing activities.

7.2 The 2019 Review considered current rental income and ongoing expenditure. Significant investment will be required in future years to finance a number of capital programmes including the:

- Energy Efficiency Standard for Social Housing (EESSH);
- EESSH 2;
- Electric Testing;
- Upgrading all smoke and carbon detectors to a linked network; and
- Replacement of heating systems.

7.3 The 2019 Review concluded that new build completions should reduce to 50 units per year and a rent increase of inflation + 1 % (3%) will be required over the next 3 financial years to ensure that all of the planned work programmes remain fundable and affordable.

8. RENT INCREASE CONSULTATION

8.1 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.

8.2 If Council agrees to consult with tenants on a proposed 3% rent increase for 2020/21, it is intended to:

- write to all tenants about the proposed rent increase; and
- use social media to gather tenant views;

8.3 The information provided to tenants will explain why the 3% rent increase is necessary, what programmes of work it will help to fund and a pie chart showing how the Housing Revenue Account will be included in the consultation documentation. The consultation will also include a comparison of rents with other local social housing landlords and compare the Council's rents to the national average. This approach is in line with the thematic inquiry published by the Scottish Housing Regulator (SHR) published on 8 November 2016 setting out how landlords should consult with tenants on potential rent increases.

9. RENT AFFORDABILITY

9.1 The SHR requires landlords to know what their tenants can afford to pay. The 2019 Review tested the affordability of Council housing based on the Scottish Government guidance on affordability. This indicates that rents should not be more than 25% of income. The assessment of 'housing affordability' is complex as it involves a range of factors such as earnings, household composition and access to welfare benefits. In reality, most households will spend between 25 to 35% of their income on housing costs. To reflect each of these potential income scenarios, the 2019 Review tested council rents at 25, 30 and 35%.

9.2 **APPENDIX I** provides a guide as to the affordability of Council rents based on the Scottish Living Wage (£9.30 per hour). This shows that a rent increase of 3% is affordable when compared to the living wage and the 25 to 35% rent to income ratios. Based on the average weekly rent of £59.88 for 2019/20 (reflecting a 52 week rent year) the average rent increase proposed for 2020/21 will be £1.80 per week.

10. NEXT STEPS

10.1 Subject to this Committee's agreement, it is proposed to begin consultation with tenants on a 3% rent increase for 2020/21. The consultation will run from 28 November 2019 to 10 January 2020. Tenant views will be gathered and will be included within the HRA annual budget setting report for 2020/21 which will be presented to Council in February 2020.

10.2 The consultation will follow the good practice set out in section 8 of the report.

11. SUMMARY OF IMPLICATIONS

(a) Corporate Plan 2023
The provision of new affordable housing and maintenance of the Council's housing stock are priorities identified within the Corporate Plan 2023 and the Housing and Property Service Plan. They also reflect the Housing and Property Service Plan priority to manage assets efficiently and effectively and to provide a quality housing service.

(b) Policy and Legal
There are no policy or legal implications arising from this report.

(c) Financial Implications
The Business Plan 2019 has reviewed the legislative work programmes that the Council will be required to deliver in future years. It concludes that a reduction in new build provision from 70 to 50 units per annum plus a rent increase of 3% over the next 3 years will ensure that the Council's housing activities remain fundable and affordable.

(d) Risk Implications
The Business Plan has modelled all potential risks and concludes that the Council's housing activities continue to be fundable and affordable.

(e) Staffing Implications
None.

(e) Property
None.

(f) Equalities/Socio Economic Impact
There are no equalities issues arising from this report.

(g) Consultations
This report has been prepared in consultation with Finance staff. Consultation on this report has also been carried out with the Head of Financial Services, the Head of Governance, Strategy and Performance, Tracey Sutherland,

Committee Services Officer and Senior Managers within the Housing and Property Service and any comments received are reflected in this report.

12. CONCLUSION

12.1 This report sets out the main findings of the Housing Business Plan Review 2019. The findings provide reassurance that current housing investment priorities are fundable and feasible on the basis that new build is reduced from 70 to 50 units per annum and a 3% rent increase is applied over the next 3 financial years to help fund future housing investment programmes. Subject to agreement, the consultation with tenants on the 3% rent increase for 2020/21 will be carried out prior to the Council setting its annual rent increase for 2020/21.

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Background Papers:	Held by author
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