



REPORT TO: SPECIAL MEETING OF MORAY COUNCIL ON 22 FEBRUARY 2022

SUBJECT: HOUSING BUSINESS PLAN REVIEW 2022 AND HOUSING REVENUE ACCOUNT (HRA) BUDGET 2022/23

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 in addition to the Housing Revenue Account (HRA) Budget and Housing Investment Plan for 2022/23 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 the main findings of the Housing Business Plan 2022 Review and notes that housing activities must remain fundable and affordable within the constraints of the accounting regime for housing;**
- (ii) agrees the proposed HRA Budget for 2022/23 (APPENDIX I) and Housing Investment Plan (APPENDIX II);**
- (iii) considers and notes the results of consultation with tenants on options for the 2022/23 rent increase;**
- (iv) agrees Council house rents increase of 1.5% for 2022/23;**
- (v) agrees that garage rents are increased by 7% (this is a two yearly increase);**
- (vi) agrees service developments at a cost of £456k, as detailed in paragraph 9.16;**
- (vii) agrees that grass cutting charges are increased by 3.5%; and**

(viii) notes the three year projection to 2024-25 (APPENDIX III).

3. HOUSING BUSINESS PLAN REVIEW 2022

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 reviewed in 2019 and was reported to Moray Council on 27 November 2019 (paragraph 13 of the minute refers). The 2019 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 3% in 2020/21.

4. 2022 REVIEW

- 4.1 The 2022 Business Plan Review aims to demonstrate how the Council can continue to ensure that stock is maintained at Scottish Housing Quality Standard (SHQS) levels and is brought up to the Energy Efficiency for Social Housing (ESSH) standards, whilst keeping a positive balance on the Housing Revenue Account (HRA).
- 4.2 It is a 30-year business plan model which takes account of all costs and income connected with the management and maintenance of the stock over that period. The Business Plan Modelling Tool used adheres to five key principles:
- Based on accurate information and sensible assumptions
 - Based on the HRA Budget
 - Evidence based on past performance
 - Reflects sensible projections going forward
 - Sets out all areas of HRA budgeted expenditure
 - Including management, maintenance and investment
 - Sets out all available income over time
 - Calculates rental income required to meet expenditure requirements
 - Measures financial position over the next 30 years
 - Tests how much the Council needs to borrow and if this is affordable
 - Supports scenario planning and risk assessment
 - Tests if the financial position can withstand risk
 - Tests impact on rent to ensure affordability

- Enable contingencies to be identified and tested

5. RISK ASSESSMENT AND SENSITIVITY ANALYSIS

5.1 An integral part of the development of the business plan is the identification and mitigation of risk in the business plan framework. It is recognised that Moray Council has adopted a positive approach to risk management by:

- Identifying the current risks to the Council associated with the provision of housing services;
- Identifying any additional risks arising or likely to arise in the lifetime of this plan;
- Quantifying and understanding the significance of these risks in terms of likelihood and impact, thereby enabling prioritisation;
- Considering existing arrangements for avoiding risk where possible and managing risks otherwise; and
- Developing action plans to assist in mitigating/controlling these risks.

5.2 To ensure the revised business plan can withstand risk, several individual and multiple risk factors which could potentially arise in the future have been tested on the outcomes of the business plan. These include risks arising from welfare reform, interest rate risk and potential risks arising from the uncertainty of the current economic environment.

5.3 Under these scenarios, the debt affordability and debt per unit increases compared to the baseline, however still within a range which could be managed and comparable with other local authorities. Interestingly a strategic decision to continue with a development programme of 50 properties per year from year 7 of the plan actually reduces the debt affordability %, albeit with a higher debt per unit.

6. KEY FINDINGS

6.1 The 2022 review determined:

- Supervision and Management costs are below the local authority average.
- No negative cash balances are evident throughout the life of the plan.
- Based on a rent strategy of CPI + 1%, the Council can maintain SHQS and meet EESSH standards.
- The additional investment required for SHQS & EESSHH would exceed the current affordability threshold of 35% after year 10.
- Considerations to manage this would be to increase the limit, implement a higher rent increase in the early years of the plan or to find efficiencies within the investment programme.

6.2 Accordingly the baseline plan is determined to be fundable and sustainable over the 30-year period, subject to the considerations regarding the current affordability threshold set out above.

7. RENT INCREASE CONSULTATION

7.1 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.

7.2 The consultation for 2022/23 was undertaken from 13 December 2021 until 14 January 2022, with surveys issued to 6,088 tenants by letter or email according with their communication preference.

7.3 Tenants were invited to express preference for one of three options:

Option one - 1.5%

This is below the rate of inflation, limits funding for the Council to improve stock and would require larger increases in future years to maintain the business plan.

Option two – 3.0%

This would be approximately the rate of inflation and would maintain current funding levels for stock improvements, however would remain below the business plan projection and therefore require larger increases in future years.

Option three – 4.5%

This would be slightly higher than the business plan projection and would therefore enable the Council to accelerate its programme for energy efficiency and stock improvement. Under this option we would commit to increasing our heating replacement programme by 10%, representing a total of over 500 properties benefitting from a new heating system by the year end. Taking cognisance of energy price rises, under this option we would also set aside a budget of £50k to provide direct assistance to those tenants who are struggling most with utility costs.

7.4 A total of 590 responses were received, representing a 9.7% response rate:
335 tenants (56.8%) opted for Option one – 1.5%
156 tenants (26.4%) opted for Option two – 3%
99 tenants (16.8%) opted for Option three – 4.5%

7.5 Given the clear preference for option one, this is the recommended rent increase for 2022/23. However, it is noted that tenants were advised in the consultation that this is below the rate of inflation and business plan assumption, therefore a higher increase will be needed in future years.

7.6 Based on this rent increase, Moray 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.

8. HRA BUDGET 2022/23

PROJECTED HRA OUTTURN 2021/22

- 8.1 On 18 February 2021, the Council agreed its HRA Budget for 2021/22 (paragraph 7 of the Minute refers). Reports on budgetary performance have been presented to Committee throughout 2021/22. Expenditure has been impacted by restrictions which have arisen in the course of the year and uncertain market conditions.
- 8.2 The most recent HRA budget monitoring report presented to the Housing and Community Safety Committee on 8 February 2022 identified the main variations in the projected outturns to 30 November 2021 as follows:-

Expenditure

Supervision and Management

- 8.3 An underspend of £145k was projected. This variance resulted from projected underspends in staffing (£126k), shared accommodation costs (£78k) and other minor cumulative net underspends (£32k). This was reduced by a projected overspend in voids (£91k).

Sheltered Housing

- 8.4 An overspend of £4k was projected due to excess energy costs.

Repairs and Maintenance

- 8.5 An underspend of £921k was projected. Planned/Cyclical works were projected to underspend by (£958k), which would be partially offset by an overspend in voids (£37k).

Financing Costs

- 8.6 An underspend of £99k was projected due to lower than estimated interest rates and the continued level of Capital from Current Revenue (CFCR) used to keep borrowing to a minimum. There was also a change in the loans pool method, with the first repayment in following year as opposed to half repayment in current year for new borrowing.

Bad and Doubtful Debts

- 8.7 An underspend of £20k was projected due to lower write-offs than originally expected.

CFCR

- 8.8 The level of Capital from Current Revenue (CFCR) was projected to increase by £1.163 m due to underspends elsewhere across the HRA budget.

Downsizing Incentive Scheme

- 8.9 An underspend of £32k is projected due to fewer transfers taking place.

Service Developments

- 8.10 An underspend of £40k was projected due to staffing vacancies and lower than anticipated expenditure on consultancy, with £17k being carried forward to 2022/23 for the Housing Need and Demand Assessment (HNDA).

8.11 Total expenditure on the HRA - was projected to be £90k lower than budgeted.

Income

8.12 Minor variations were projected for income on non-dwelling rents, house rents and other income during 2021/22.

8.13 Total income to the HRA was projected to be £90k lower than originally budgeted for 2021/22.

8.14 Overall, a surplus balance of £2.401m is projected for the HRA budget in 2021/22.

9. PROPOSED HRA BUDGET 2022/23

9.1 As in previous years, Officers have considered in detail the base budget agreed for 2022/23. 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 COVID-19 on both income and expenditure. Whilst it is anticipated that the direct impact of pandemic restrictions will reduce in the 2022/23 financial year, the focus on service recovery and stock improvement will be undertaken in the context of volatile market conditions in terms of material and labour availability and price, which may impact upon the eventual output.

9.2 **APPENDIX I** details the proposed HRA Budget for 2022/23. Comments on the proposed budget can be made as follows:-

Expenditure

9.3 The total expenditure proposed amounts to £21.666m. The main areas of expenditure are considered below.

Supervision and Management

9.4 The budget proposed for supervision and management costs is £4.533m. This provides for a 2% pay award and also makes allowance for increased voids costs.

9.5 HRA statistics recently published by the Scottish Government, highlight that Moray continues to be in the lowest quartile of Councils with regards to supervision and management costs per house.

Sheltered Housing

9.6 The Sheltered Housing Budget is increased to £0.025m for 2022/23.

Housing Investment Plan

9.7 The Housing Investment Plan reflects the investment priorities which tenants identified within the 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.).

- 9.8 The revised Business Plan provides for the level of investment required to meet SHQS and EESSH 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 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.
- 9.9 Proposed revenue expenditure for Repairs and Maintenance of £7.929m, and capital expenditure for Planned Maintenance and Improvements of £10.610m is included in the Housing Investment Plan, summarised in **APPENDIX II**. These budgets make provision for typical levels of activity as well as an anticipated increase attributable to the lower level of reactive repairs reported out under pandemic restrictions, as well as the strategic investment priorities.

New Build Housing Programme

- 9.10 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. The current resource assumption for Moray is £11.2m in 2022/23 and £5.021m in 2023/24. 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.
- 9.11 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 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.
- 9.12 The Council's Strategic Housing Investment Plan (SHIP) approved by Housing and Community Safety Committee on 19 October 2021 (paragraph 5 of the Minute refers), makes provision for 50 Council house completions per year from 2022/23-2026/27. 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 house building programme will be a key factor in ensuring that the available resources are fully utilised in Moray.

Financing Costs

- 9.13 Financing costs are projected at £4.096m for 2022/23. This is an increase of £216k when compared to the previous year's budget.

Capital from Current Revenue (CFCR)

- 9.14 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 2022/23. These will be financed through the HRA revenue and capital budgets. For 2022/23, it is proposed to set CFCR at £4.303m to allow the Council to maintain an operating surplus of £2.401m at year end.

Downsizing Incentive Scheme

- 9.15 It is proposed to maintain the annual budget for the Downsizing Incentive Scheme at £72k for 2022/23.

Service Developments

- 9.16 Service developments of up to £456k have been included in the budget for 2022/23 to reflect several emergent priorities, notably the capacity to deliver the enhanced investment programme, tenant participation and housing management resource. Each of these elements are significantly below benchmarked equivalents and are required to deliver service priorities and specific details will be reported to service committees in the course of the reporting year.

- 9.17 There is a statutory requirement to complete a Housing Need and Demand Assessment to facilitate the housing land allocations in the next Local Development Plan. The proposed budget for this activity is £17k, which has been carried forward from 21/22.

Income

- 9.18 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.

10. 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

There are no policy or legal implications arising from this report.

(c) Financial Implications

The 2022 Business Plan review provides for the 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 remain under periodic review 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 continued recovery from the impact of the pandemic and the extent of economic uncertainty, this position will be periodically reviewed and appropriate contingent measures taken.

(e) Staffing implications

There will be a number of posts funded under the service development budget in order to increase capacity in Housing Investment, Tenant Participation and Housing Management. Specific details of these will be reported to the service committee.

(f) Property

None.

(g) Equalities/Socio Economic Impact

There are no equalities/socio economic impacts arising from this report.

(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 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.

11. CONCLUSION

11.1 This report presents the HRA Budget proposals for 2022/23. It also includes a three year financial projection to 2024/25. Following consultation a rent of 1.5% is recommended for 2022/23 and the reviewed business plan is thereafter predicated on CPI + 1% in order that the Council's housing activities remain sustainable and affordable.

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