



**REPORT TO: HOUSING AND COMMUNITY SAFETY COMMITTEE ON 19
NOVEMBER 2024**

**SUBJECT: HOUSING BUSINESS PLAN REVIEW 2024 AND PREPARATION
FOR THE HRA BUDGET SETTING 2025/26**

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

1. REASON FOR REPORT

- 1.1 To inform the Committee of the findings of the Housing Revenue Account 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 2025/26 for Council's consideration in Feb 2024.
- 1.2 This report is submitted to Committee in terms of Section III G (1) of the Council's Scheme of Administration relating to long term financial planning in the discharge of the Council's housing functions.

2. RECOMMENDATION

2.1 It is recommended that the Housing and Community Safety Committee:-

- (i) considers the main findings of the Housing Business Plan 2024 Review and notes that housing activities must remain fundable and affordable within the constraints of the accounting regime for housing;**
- ii) agrees to maintain council new build provision at 50 units per annum;**
- iii) agrees to consult tenants on a fixed rent increase applicable to the next 3 years i.e. 2025/26, 2026/27 and 2027/28; and**
- (v) agrees that the views of tenants are included within the Housing Revenue Account Budget for 2025/26, due to be presented to Council in February 2025.**

3. BACKGROUND

- 3.1 The Housing (Scotland) Act 1987 requires that income and expenditure in relation to a local authority's own direct provision of housing must be recorded separately within a Housing Revenue Account (HRA). The HRA should be self-financing i.e. income is sufficient to cover expenditure.
- 3.2 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). Arneil Johnston Consultants have been assisting officers with regular reviews and updates since then. 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.
- 3.3 The Business Plan was last reviewed in 2022 and was reported to Moray Council on 22 February 2022 (paragraph 5 of the minute refers).
- 3.4 On 13 February 2024, Housing and Community Safety Committee approved a revised Rent Setting Policy for implementation from April 2024 (paragraph 7 of the minute refers).
- 3.5 On 28 February 2024, Moray Council approved the HRA budget for 2024/25 which included a rent increase of 7.7% and details of the Housing Investment Plan 2024/25 to 2026/27 (paragraph 8 of the minute refers).

4. HOUSING BUSINESS PLAN REVIEW 2024

- 4.1 The 2024 Business Plan Review aims to demonstrate how the Council can ensure that Scottish Housing Quality Standard (SHQS) and Energy Efficiency for Social Housing (EESH) standards are achieved and maintained, and fund a modest new build and acquisition programme, 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 these principles:
- Based on accurate information and sensible assumptions
 - Sets out all areas of HRA budgeted expenditure including management, maintenance and investment
 - Sets out all available income over time
 - Measures financial position over the next 30 years
 - Supports scenario planning and risk assessment.

Risk Assessment and Sensitivity Analysis

4.3 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.

4.4 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 regulatory requirements, inflation and interest rate risk and potential risks arising from the macro-economic environment.

New Build and Acquisition Programme

4.5 The Council's Strategic Housing Investment Plan (SHIP), presented elsewhere on this agenda, makes provision for 201 Council house completions and/or acquisitions from 2024/25 to 2029/30. The resource planning assumption (RPA) for 2024/25 is £7.169m. Given there is ongoing uncertainty with regards to the capacity of the local housing associations to develop, it can be assumed that the continuation of the Council's own new build and acquisition programme will be a key factor in ensuring that the available resources are fully utilised.

4.6 The new build programme is financed primarily through a combination of Scottish Government subsidy and HRA prudential borrowing. The 2024 Review has confirmed that a new build programme of 50 units per annum for the next 5 years remains affordable on the assumption that there will be no major changes in the macro-economic environment.

Rent Affordability

4.7 The SHR requires landlords to assess affordability of rents. Although there is no nationally recognised affordability measure, it is accepted that affordable rents require households to pay no more than 25-35% of their income on housing costs. Following implementation of the Council's revised Rent Setting policy, the 2024 Review has tested the affordability of Council revised rents based on comparisons with RSLs, peer local authorities and Local Housing Allowance. The Review found that:

- On average Moray Council's rents are 31% lower than local RSL rents.
- Council rents are between 41-46% below the LHA level depending on the property size. All property sizes are comfortably below the LHA threshold.

- Despite the 7.7% rent increase in 2024/25, Moray rents remain competitively priced when benchmarked to all local authorities and locally operating peer RSLs.

5. KEY FINDINGS

5.1 The 2024 review found:

- Supervision and Management costs are below the local authority average.
- Debt per unit is below the local authority average.
- Based on a rent strategy of 6% for 5 years and CPI+1% thereafter, the Council can achieve and then maintain SHQS compliance.
- The planned rent increases deliver a positive CFCR throughout the 30-year term.
- Following implementation of the revised Rent Setting Policy in April 2024, rents continue to be affordable.

5.2 The Review recommends that Moray Council proceed with a rental strategy of at least 6% over the next 5 years.

6. FUTURE ACTIONS

6.1 Arneil Johnston will present their findings to Elected Members in February 2025.

6.2 A further HRA Business Plan review will be completed in 2027 to inform HRA budget setting for 2028/29.

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 Business Plan review models rent increases at 6% for the first 5 years, and CPI+1% thereafter to year 30. This scenario will allow the Council to continue to fund the accelerated investment programme, maintain SHQS compliance in the longer term, and continue with a programme of 50 new build completions/acquisitions per year for 5 years.

7.3 The Review includes an assessment of the affordability of 2024/25 rents and has found that, despite the revised Rent Setting Policy and the above inflation rent increase in 2024/25, Moray Council's rents remain affordable, remain lower than local RSL properties, and remain the lowest average in Scotland. Therefore Committee approval is sought to consult tenants on rent increases of at least 6% applicable to each of the next 3 years i.e. 2025/26, 2026/27 and 2027/28.

- 7.4 A 3-year increase will provide the financial stability to fund the investment programme which aims to achieve and maintain SHQS compliance. The 3-year increase would be reviewed during its term if there were any further macroeconomic events which substantially affect the HRA Business Plan assumptions e.g. increased inflation.
- 7.5 It is proposed that the Council consult tenants on rent increase options which are equivalent to and above this amount. The consultation will present tenants with the following options applicable to 2024/25, 2025/26 and 2026/27:
- 6% increase i.e. Business Plan minimum.
 - 7% increase i.e. enabling accelerated kitchen & bathroom programme.
- 7.6 The information provided to tenants as part of the consultation will provide rental increase options along with details on how rental income is used, explains how rents are used to fund improvements to homes and will include a comparison with other local authority rents.
- 7.7 The consultation process will involve:
- publication of comprehensive explanatory information on the Council website;
 - developing an online survey available on the Council's website and publicising it across the Council's social media platforms; and
 - contacting Moray Council tenants, the Register of Interested Tenants; and Moray Tenant's Forum to seek their feedback.
- 7.8 Subject to this Committee's approval, the consultation will commence on 20 November 2024 and close on Friday 3 January 2025. Tenants' views will be gathered and will be included within the HRA annual budget setting report for 2025/26 which will be presented to Council in February 2025.

8. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcome Improvement Plan (LOIP))

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

(b) Policy and Legal

In addition to the statutory requirement to consult tenants on proposals to increase rent, as set out in 7.1, the Scottish Social Housing Charter aims and outcomes (14 & 15) require social landlords to set rents and service charges in consultation with their tenants and other customers so that:

- a balance is struck between the level of services provided, the cost of the services and how far current and prospective tenants and other customers can afford them.

- tenants get clear information on how rent and other money is spent, including any details of individual items of expenditure above thresholds agreed between landlords and tenants.

(c) Financial Implications

The HRA Business Plan 2024 has reviewed the legislative work programmes that the Council will be required to deliver in future years. It concludes a rent increase of 6% over the next 5 years and CPI+1 thereafter will ensure that the Council's housing activities, and prudential borrowing to support a new build programme of 50 units per year for 5 years, will remain fundable and affordable.

The Business Plan will be reviewed again after 3 years.

(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

There are no impacts arising from this report.

(f) Property

There are no impacts arising from this report.

(g) Equalities/Socio Economic Impact

There are no impacts arising from this report.

(h) Climate Change and Biodiversity Impacts

There are no impact arising from this report.

(i) Consultations

This report has been prepared with the assistance of the Council's Accountancy team. Consultation on this report has also been carried out with the Chief Financial Officer, the Governance, Strategy and Performance Manager, the Property Asset Manager, the Housing Strategy and Development Manager, the Building Services Manager, the Housing Operations Manager, Legal Services Senior Solicitor (Georgina Anderson), and the Committee Services Officer (Lissa Rowan).

9. CONCLUSION

- 9.1 This report sets out the main findings of the Housing Business Plan Review 2024. The findings provide reassurance that current housing investment priorities are fundable and feasible. Subject to agreement, consultation with tenants on a rent increase for the next 3 years will be carried out prior to the Council setting its annual rent increase for 2025/26.**

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Background Papers: held by author
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