

Item: 10

Education, Leisure and Housing Committee: 7 February 2024.

Review of Housing Revenue Account Business Plan.

Joint Report by Corporate Director for Education, Leisure and Housing and Corporate Director for Enterprise and Sustainable Regeneration

1. Purpose of Report

To consider the Housing Revenue Account Business Plan prepared by Indigo House Group.

2. Recommendations

The Committee is invited to note:

2.1.

That a full review of the affordability of the Housing Revenue Account Business Plan is required in order to ensure sufficient financial capacity to deliver the challenging energy efficiency requirements and a programme of social rented housing.

2.2.

That Indigo House Group were appointed, through Hub North, to review and update the 30-year Housing Revenue Account Business Plan, with particular emphasis on the financial capacity of the Housing Revenue Account to:

- Meet the investment needs of the existing housing stock and enhance housing service delivery.
- Deliver new housing supply particularly over the next 10 years to meet the housing needs identified in the Housing Need and Demand Assessment.
- Keep rents for tenants and debt obligations affordable.

2.3.

The key assumptions and findings arising from the review of the HRA Business Plan by Indigo House Group, as outlined at section 5 of this report, indicating that, overall, the Housing Revenue Account Business Plan is financially robust.

2.4.

That the Housing Revenue Account Business Plan was tested against a range of risks, as set out in section 5.5 of Appendix 1 to this report.

2.5.

That, should the Housing Revenue Account Business Plan be approved, the recommendations contained therein and outlined in section 6 of this report, will require to be financially viable through a combination of government grants, internal resources and/or affordable borrowing.

It is recommended:

2.6.

That the Housing Revenue Account Business Plan, prepared by Indigo House Group, attached as Appendix 1 to this report, be approved.

3. Introduction

3.1.

The need to undertake a Business Planning exercise for the Housing Revenue Account was included in the Education, Leisure and Housing Service Plan for 2019 to 2022.

3.2.

The Council holds financial modelling on its Housing Revenue Account. The current basis of that model was developed a number of years ago when the Council resumed building Council housing. The financial model has been updated on a regular basis throughout.

3.3.

The Housing Revenue Account Business Plan requires to focus on a broad range of requirements. These include service delivery requirements including costs around repairing and improving properties, staffing, tenant participation and debt repayment for the house build programme which has already delivered 275 properties since 2010. This is balanced against anticipated rental income and any income in the form of subsidy for house build and/or potentially some funding towards the cost of achieving Energy Efficiency Standard for Social Housing 2 (ESSH2). Performance of the Housing Service is also central in order to minimise financial losses including through rent arrears, void rental loss etc. In addition, it requires to plan for the future including the level of current and future house building and financial plans to meet (ESSH2).

3.4.

The financial planning covers a period of 30 years and therefore there are many uncertainties which are required to be factored, in, including, but not limited to, changes in interest rates and inflationary pressures.

3.5.

The Housing Revenue Account is ring-fenced in law and is funded by tenants' rents with the addition of some Scottish Government subsidy provided specifically towards the cost of housing development or acquisition.

3.6.

There is a need to ensure that tenants' rents remain affordable.

3.7.

Nationally there has been a strong focus on Housing Revenue Account Business Plans and the challenges faced particularly as a result of the ongoing costs of house build programmes and the requirements to meet (ESSH2).

3.8.

Due to increasing complexity of the business plan process it became necessary for the Housing Revenue Account financial model to be updated to meet current needs and also to provide additional functionality to assist with the modelling process of both the Housing and Finance Services. Therefore, an independent review was desirable to assist with this detailed and specialist area.

3.9.

A small working group consisting of senior Council officers representing the Housing and Finance Services was formed in order to progress this work and to provide relevant information and costs accordingly. Topic specific meetings have focussed on rents, investment and HRA plans for development.

4. Independent Review of Housing Revenue Account Financial Modelling

4.1.

Indigo House was appointed through Hub North to undertake an independent review of the 30-year Housing Revenue Account Business Plan.

4.2.

The review involved particular emphasis on the financial capacity of the Housing Revenue Account to:

- Meet the investment needs of the existing housing stock and enhance housing service delivery.
- Deliver new housing supply particularly over the next 10 years to meet the housing needs identified in the Housing Need and Demand Assessment.
- Keep rents affordable for tenants and debt obligations affordable.

4.3.

The Scottish Government had also previously expressed concern regarding the Council's new build rent levels and so Indigo House were also asked to consider options in this regard.

4.4.

4.4.1.

The review of the Housing Revenue Account included:

- Examination of detailed financial and non-financial data provided by the Council for analysis. This included income and expenditure, economic and funding assumptions being assessed based on recent historical performance.
- Assessment of completeness and validity within the plan including ensuring the inclusion of all properties and all rent generated etc.
- Ensured information within the business plan was valid and reflected anticipated changes within the external environment such as cost of living pressures.
- A profile of long-term projections was stress tested including the capacity for future borrowing and a sensitivity analysis was tested.

4.4.2.

In practice this has covered:

- Assessment of current rental levels and rent affordability with a view to phasing out the 25% rental premium for properties built more recently than 2010, starting from April 2025 and focussing on those rents which are above the local housing allowance rate. This would be a phased suspension of increases or reduction over 3 to 5 years. The development of a revised baseline business plan with updated assumptions.
- A review of investment plans for current stock and how this compares with peers.
- Scenarios for rental options for the Council to consider.
- The latest new build investment programme and capacity to extend current plans.
- A review of the housing debt profile to ensure debt affordability thresholds are not breached over the course of the 30-year plan.
- Impact assessment of potential efficiency measures.

4.2.

The Housing Revenue Account Business Plan, prepared by Indigo House Group, is attached as Appendix 1 to this report.

5. Key Assumptions

5.1.

The model assumes:

- That the Council holds 1,008 properties, 68 properties are owned by the Housing Revenue Account and leased to the General Fund for use as temporary accommodation for homeless households.
- That two new build projects underway currently will become available for letting during 2024/25 enhancing the Council's stock by a further 18 properties (14 at Carness and four at Moar Drive, Kirkwall).
- That the Council has an average rent of £88.25 per week for the Housing Revenue Account properties.
- Rent increases at 1 April 2024 have been modelled at 6.7% and 7.2%. Thereafter, rents are assumed to increase at CPI +1% for 2 years, CPI + 0.5% for 2 years and CPI only from year 5 of the plan. The model assumes the rental increase for 2024/25 will be 6.7% which will result in the average rent for 2024/25 rising to £94.17.
- Void loss and bad debt provision is 1.3% per annum overall which reflects current performance. Arrears at 14% are higher than the Scottish average of 7.8%. Recovery of arrears is a key area of focus for the Housing Service but it is highlighted that the migration of the last group of Housing Benefit claimants to Universal Credit, will impact on arrears levels. A higher level of write off for former tenant arrears, has been factored in to allow available resources to focus on collection of current arrears.
- Assumptions outlined surrounding costs for supervision and management and property repairs and maintenance and other expenditure are as detailed in sections 3.3, 3.4 and 3.5 respectively of the report attached at Appendix 1.
- Investment in housing stock over the next 30 years of £37,335 per unit to replace kitchens, bathrooms, doors etc as they fall due for replacement and a further £21,498 per unit to make the housing stock more energy efficient is outlined at section 4.1 of the report.
- That 18 new build units will be built in 2024/25 as is anticipated. However, the potential impact of slippage next year was also stress tested that is the potential for no new build units to be completed next year.
- That new build provision of 135 new properties will be developed over the next 10 years based on a net cost to the Council of £115k per unit as outlined at section 4.2 of the report.
- That additional investment requirements include procurement of IT systems and a stock condition survey includes the need for an additional £0.255M or £0.085M per year for the next 3 years.
- That borrowing will require to increase as outlined at sections 4.4 and 4.5 of the report.

- That Scottish Government grant will be available towards the cost of building new properties, along with second home income from Council Tax and some limited capital receipts from the sale of a small number of properties in low demand, as outlined at section 4.6 of the report.

5.2.

The model highlights that:

- For the duration of the plan, available resources are fully allocated meeting the investment needs and cost of managing the existing stock, delivery of the new build programme and servicing debt.
- The Housing Revenue Account can reasonably be described as constrained in the medium and longer term with the investment needs of the stock and the Housing Revenue Account debt obligation fully absorbing the resources available (until year 26 of the plan).
- The closing balance at the term of the plan (30 years from now) is an estimated £3.1M at year 25 and £16.289M at year 30. Whilst the Council is able to service its existing debt of £10M (which is around £10k per property plus new debt) there will still be a residual outstanding debt balance at year 30 on the new debt given that the proposed new build programme is a minimum 10 year investment programme, as is the energy transition investment.
- The Council is forecast to exceed the 35% prudential borrowing limit from around year 21 (on the basis of the base plan without further corrective action that is no grant for energy transition is available, for example).

5.3.

The analysis as outlined at section 5.4 of the report, shows that some appropriate financial structuring, rescheduling and smoothing of investment profiles to control the pace of investment and the effective strategic financial management of the assets, the plan is forecast to remain compliant with the prudential limits over the longer term.

5.4.

There are some significant challenges facing the Housing Revenue Account including meeting the investment needs of the stock and delivering a programme of new build properties.

5.5.

The HRA Business Plan was tested against a range of risks and these are set out in section 5.5 of the report attached at Appendix 1. This includes consideration of factors within the control of the Council and those which relate to the external environment and therefore are not within the control of the Council. The investment needs of the stock have increased significantly as a result of rising costs and the requirement to make Council homes more energy efficient. The HRA is therefore under significant pressure and will continue to require careful planning and monitoring.

6. Recommendations from the Report

There are recommendations for consideration as detailed in section 7 of Appendix 1, as follows:

- Commissioning of a full stock condition survey to validate the investment needs of the existing stock.
- Review of the repairs service, in particular, right first-time performance and costs, and approach to revenue versus planned maintenance of the housing stock.
- Building on a strategic approach to asset management and investment planning of the existing stock.
- Investment in an IT upgrade to facilitate housing service enhancement and improvements in processes/the customer journey.
- Development of the programme/pipeline of sites suitable for social housing provisions and progressing with priority sites, within the context of the Council's approval frameworks including the scheme of delegation and financial regulations of the Council.
- Review of the Council's rents against the Local Housing Allowance rates effective from 1 April 2024, once published/available. This could be phased in over a reasonable period (potentially 3 years) and implemented from 1 April 2025. It is expected that this should take place with no detriment to the Housing Revenue Account gross rental income stream and would address the Scottish Government's concerns.
- The 5-year Capital Expenditure Programme set out in section 5.3 of the report is taken forward for approval through the Council's capital improvement process.
- In addition, as a significant level of capital investment is required over the next 5-10 years, it is recommended that the 30-year financial plan is updated through the course of the financial year to support and reflect decision making around all material investment programmes.

7. Links to Council Plan

7.1.

The proposals in this report support and contribute to improved outcomes for communities as outlined in the Council Plan strategic priority of Developing our Infrastructure.

7.2.

The proposals in this report relate directly to Priority I6 (Social housing) of the Council Delivery Plan.

8. Links to Local Outcomes Improvement Plan

The proposals in this report support and contribute to improved outcomes for communities as outlined in the Local Outcomes Improvement Plan priorities of Local Equality and Cost of Living.

9. Financial Implications

9.1.

The Housing Revenue Account is ring-fenced in law and is funded by tenants' rents with the addition of some specific Scottish Government subsidy for the purposes of building houses.

9.2.

The costs for the Housing Revenue Account Business Plan, prepared by Hub North/Indigo House incurred to date are £62,182.

9.3.

The implementation of Housing Revenue Account plan sets out recommendations to deal with some of the long-term challenges. If approved, each recommendation would be required to be financially viable through a combination of government grants, internal resources and/or affordable borrowing.

10. Legal Aspects

10.1.

The Housing (Scotland) Act 1987 (Section 203) makes specific provision for a Local Authority to keep a Housing Revenue Account.

10.2.

The Scottish Government published Guidance on the Operation of Local Authority Housing Revenue Accounts in Scotland, in 2014, which is available from <https://www.gov.scot/publications/guidance-operation-local-authority-housing-revenue-accounts-hras-scotland/pages/6/>

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12. Appendix

Appendix 1: Housing Revenue Account 2024/25 Orkney Islands Council.

Housing Revenue Account 2024-25

ORKNEY ISLANDS COUNCIL

Final Report

16th January 2024

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1. Introduction and background

1.1 Purpose

Orkney Islands Council "OIC" appointed the Indigo House Group (through HUB North) to review and update the 30-year Housing Revenue Account. This report sets out our findings.

The review involved particular emphasis on the financial capacity of the HRA to:

- Meet the investment needs of the existing housing stock and enhance housing service delivery.
- Deliver new housing supply particularly over the next 10 years to meet the housing needs identified in the HNDA.
- Keep rents affordable for tenants and debt obligations affordable for the HRA.

Scottish Government had also previously expressed concern regarding OICs new build rent levels and so this is also considered in the body of the report.

1.2 Our approach

The analysis set out in this report covers 1,008 housing properties in the ownership and management of OIC. In undertaking our work, we:

- Examined and collated a volume of financial and non-financial data provided by OIC officers for upload to our proprietary HPLAN tool for analysis. Each of the Council's income and expenditure, economic and funding assumptions were examined for reasonableness (based primarily on recent historical performance, completeness (e.g. are all rents included) and validity (e.g. does it reflect expected changes in the external environment e.g. cost of living pressures etc).
- Liaised with OIC officers to discuss various aspects of the current approach.
- Profiled the long-term projections arising from the assumptions reviewed and stressed tested the Council's financial capacity for further investment including from borrowing using our proprietary financial planning tool, HPLAN. This includes an assessment of the strength of the underlying cash flows using the net present value (NPV) methodology at a real discount factor of 3.5% which is in line with UK's HM Treasury Green Book appraisals and also at 6% which is the rate more commonly applied in appraisal of social housing.
- Performed sensitivity analysis to test the impact of various actions on the long-term financial capacity and performance of the HRA and housing stock. Several high-level investment scenarios were modelled to consider the financial capacity of the HRA to deliver a new build programme.

- Separately examined published data to assess the Council's current financial profile and performance relative to other social landlords across Scotland.

1.3 Report Structure

The rest of the report is structured as follows:

- **Section 2:** In this section we consider the **strategic context** in which the HRA sits, the legislative basis for the HRA, the key principles of the 2014 HRA Guidance and housing needs and demand for social housing in Orkney as established from the recently updated LHS and HNDA.
- **Section 3 and 4:** In these sections we set out the financial planning assumptions underpinning the HRA – the **annual income and expenditure** associated with the ongoing management and maintenance of the HRA assets and services (section 3) and then the **investment requirements** over the longer term to support continued delivery and enhancement of the HRA assets and services (section 4).
- **Section 5:** we set out the draft updated **30-Year HRA 2024-25** using our proprietary HPLAN. We consider the financial strength and capacity of the OIC's HRA and test the sensitivity of the plan to changes in key assumptions. The financial planning covers a period of 30 years during which time there are many uncertainties including changes in interest rates, inflation, cost of supplies, rising staffing costs which need to be tested.
- Our **conclusions and recommendations** are set out in **Section 6**.

1.4 Limitations

Other than general reasonableness checks Indigo House has not sought to verify the accuracy of the data, information and explanations provided from client officers as would be the case during an audit or due diligence exercise. Reliance has therefore been placed on the information supplied and this has been used to inform our analysis.

The report has been prepared for the sole use of Orkney Islands Council. It should not be shared with third parties without the prior written consent of Indigo House and Indigo House accepts no liability and provides no warranty in respect of information shared with third parties.

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2. HRA Strategic Context

2.1 HRA Legislation

The Housing (Scotland) Act 1987 set out the requirements for local authorities to maintain a dedicated housing revenue account in relation to their housing stock.

The Housing Revenue Account is therefore a 'ring-fenced' account within the General Fund which is provided for in statute and there are certain conditions that must be met. For example, the requirement to set a balanced budget annually.

Setting a balanced budget broadly means that cash raised during the year will meet cash expenditure¹. For the HRA, this means that money collected through tenants' rents should be sufficient to meet expenditure on delivering housing managing services, repairing and maintaining the council dwellings owned to an agreed standard and meeting debt servicing and other obligations as they fall due.

In March 2014, the Scottish Government issued guidance "Operation of the Local Authority Housing Revenue Accounts in Scotland."

2.2 Scottish Government Guidance

This Guidance summarises the legal basis for having a separate council landlord account and sets out the accounting and auditing protocols which local authorities must adhere to when submitting their housing accounts to Audit Scotland.

The stated aim of the Guidance, which still applies today, is to ensure that tenants receive the maximum benefit from their rents and ultimately the best standards of service. The guidance also importantly seeks to help ensure transparency in the operation of the HRA and the recording of financial information so that tenants can better understand how their housing service is delivering benefit to them and at what cost in line with the requirements of the Scottish Social Housing Charter.

The 5 key principles under which the HRA must operate are:

- **Principle 1** - it is compliant with legislation; any statutory guidance that Scottish Ministers in relation to local authority finance; and must adhere to any accounting codes of practice (Section 5 of the Guidance)

¹ OIC Treasury Management Strategy 2023-24

- **Principle 2** -HRA assets must be used to benefit present or prospective council tenants either in direct usage or as investment properties providing a financial return. If neither of these situations applies, then the assets are not benefiting the HRA and removal from the HRA should be considered (Section 6 of this Guidance)
- **Principle 3** - there is a robust, written methodology for calculating and allocating HRA costs (including internal costs charged by the Council to the HRA) in sufficient financial detail for tenants to understand why costs are being charged and who is benefiting from the services these costs relate to. This must include the allocation to the HRA of the appropriate proportion of council Trading Operation surpluses attributable to council housing activities. Furthermore, the HRA cost allocation methodology must also be updated regularly to reflect changes in legislation, statutory guidance, codes of practice, the market for HRA goods and services and any other relevant changes (section 7 of this Guidance)
- **Principle 4** - in addition to the existing statutory obligations, local authorities must have clear, published mechanisms and procedures for consulting with council tenants and/or registered tenant representatives on any matters of financial transparency relating to the HRA in accordance with outcomes 2 and 3 of the Scottish Social Housing Charter (section 8 of this Guidance)
- **Principle 5** - . to ensure that, where legally entitled, and subject to a robust proportionality test, non-council tenants living in mixed tenure areas benefiting from HRA provided services are charged for goods and services (section 9 of this Guidance)

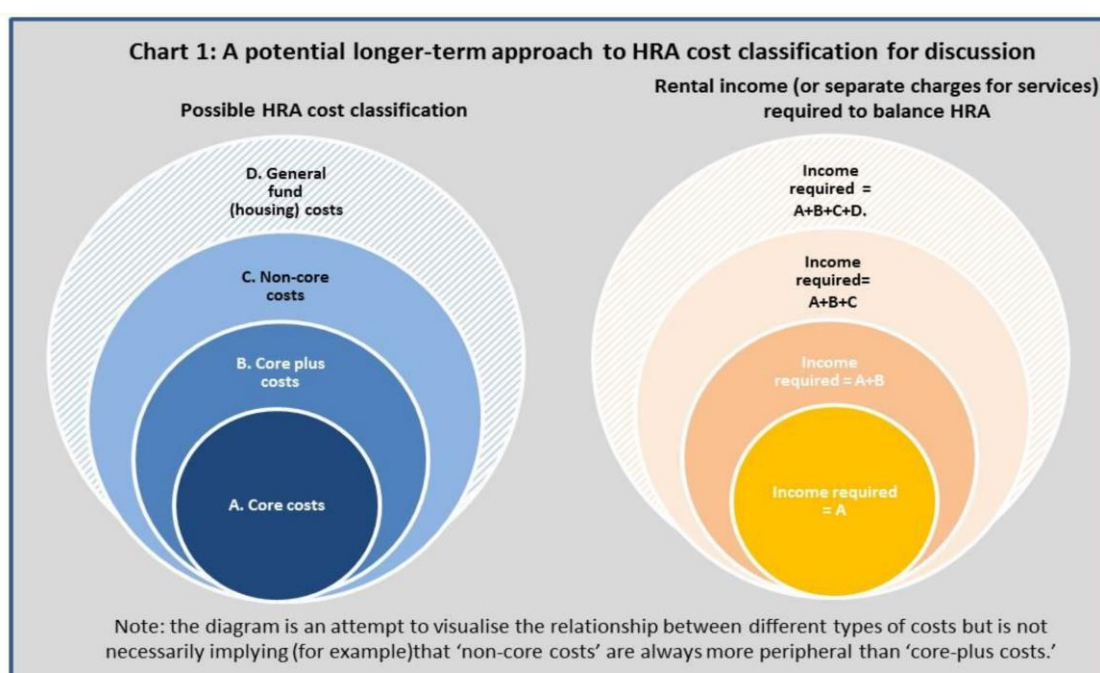
In practice, correctly assigning HRA assets and liabilities is a key consideration. A property has to be accounted for within the HRA if it has been provided under Part 1 of the 1987 Act (entitled Provision of Housing) and various earlier equivalents. This guidance sets out the following – useful but not definitive - classification for costs based on research for DCLG:

- **Cost Classification 1** - 'Core' services/costs – this might include 'traditional' landlord services, including repair and maintenance, rent and service charge collection and arrears recovery, management of repairs, lettings and allocations of HRA properties.
- **Cost Classification 2** - 'Core plus' services/costs – where it is difficult to gain a consensus around a strict definition of 'core' HRA costs, it may be necessary to itemise a range of services where there is a general expectation that council landlords will provide a service and where a proportion of cost might be met from the HRA e.g. tenancy support, contributions to corporate anti-social behavior services
- **Cost Classification 3** - 'Non-core' services/costs – such services might include providing non-housing maintenance of tenant gardens – unless a separate HRA charge is made for the service, street lighting, personal care services, homelessness administration.

And the Scottish Government proposed a fourth class of housing costs to mirror the legal and accounting treatment reflected in the guidance.

- **Cost Classification 4** - General Fund (housing) costs – these are clearly not the responsibility of tenants and include areas as laid out in Table 6 in Section 7 of the Guidance. This category includes such things as private sector renewal and housing support services (formerly Supporting People). The reason for their inclusion is to differentiate between costs that are clearly HRA (or part-HRA)

The following Chart 1 set out in the guidance illustrates the relationship (as judged by Scottish Government) between these different cost classifications.



The guidance states that this essentially shows two things (and the following is a direct extract from the guidance). The left-hand side in blue shows that the more core/core plus/non-core and (incorrectly assigned) general fund (housing) costs are attributed to the HRA (moving outwards from the dark blue circle (A) to the light blue shaded circle (D)) then the greater will be the total costs in the HRA. However, significantly, the rental income (or service charge income or other income) required to balance these total HRA costs is shown in the right-hand side of the diagram. Other things equal, admitting only core costs into the HRA will involve collecting rental (and other) income equivalent to Area A. However, if progressively more costs are admitted to the HRA, the rental (or other) income that will have to be charged to balance the HRA lie somewhere between Area A and Areas A+B+C+D, other things equal. Councils should know, and tenants will be expecting to know under the Scottish Social Housing Charter, the size of the areas A, B, C and D as that will explain the make-up of their weekly rents.

As well as highlighting the increasing cost burden on tenants' rents as more costs are added to the HRA, the guidance was also signaling that accurate cost allocation is essential. OIC, like other Local Authorities, will keep this under review.

2.3 OIC Local Housing Strategy and HNDA

The Housing (Scotland) Act 2001 places a statutory requirement on local authorities to assess the housing needs of all persons in the area, across all housing tenures, and to develop strategies to meet those needs. This requires the production of the Housing Need and Demand Assessment, and Local Housing Strategy (LHS). The Strategy sets out the priorities and actions required for housing supply, housing quality, and access to housing. The latest strategy covers the period 2024-2029.

The Orkney Housing Market Partnership which encompasses the Council's Member Officer Working Group has responsibility for developing and monitoring the LHS implementation on behalf of Orkney Islands Council.

Fundamental to the development of the Local Housing Strategy is the Orkney Housing Needs and Demand Assessment. This was undertaken with oversight from the Housing Market Partnership and was assessed as 'robust and credible' by the Scottish Government's Centre for Housing Market Analysis in October 2023.

The Housing Market Partnership considered various estimates of population growth and developed a 10-year Housing Supply Target – a target for new housing supply which can be realistically delivered in practice. This is set at 1,035 homes over 10 years, or 103 per annum. The split between private housing and affordable housing is broadly 50:50 and there is relatively more need in the first 5 years to address the current backlog of existing housing need.

3. HRA Revenue Planning Assumptions

The HRA business plan covers the 30-year period from 1st April 2024 to 31st March 2053. The key financial planning assumptions used to establish the 30-year plan are set out below.

3.1 HRA Assets

The business plan reflects an estimated opening HRA stock of 1008 units at 1st April 2024. A breakdown is provided below.

Size	Number
1APT	28
2APT	383
3APT	324
4APT	245
5APT	18
6APT	3
ROOM	7
Grand Total	1008

The table above shows the majority of the Council's houses are 2, 3 and 4 apartments. During this financial year (23-24) a total of 68 properties owned by the HRA are being used for emergency temporary accommodation.

Our understanding is specific housing or pitches for Gypsy/Travellers, which are generally covered by the HRA in Scotland, are not provided in Orkney due to the fact there has historically been very little evidence of Gypsy/Travellers staying in Orkney. The requirement for housing Gypsy/Travellers is kept under review by the Council.

There are two new build projects currently underway and so a further 14 units at Carness are expected to be available for letting early in the new year and 4 units at More Drive which will become available for letting in late summer. Assumptions regarding the future development programme for new housing supply beyond these 2 projects which are already underway are discussed later in this section.

3.2 Income Assumptions

Rental income due on the HRA this financial year is £4.340M and we have modelled the impact of various rent increases ranging from 5%, 6%, 6.7%, 7.2%. The draft HRA for 24/25 has assumed a rent uplift of at 6.7% which is equivalent to CPI at the mid-year point of September 2023, increasing the average weekly rent of £88.25 to £94.17 (which is £5.92 per week on average).

We have also assumed the following:

- Overall void rent loss from unoccupied properties of 1.3%. A higher level of void rent loss is assumed on the Pre 1919 properties which are in low demand (predominantly Isles school houses). This reflects actual void rent loss levels in 2021-22. OIC outperforms the Scotland wide average void rent loss for social housing which was in excess of 2% for 2021-22 and closer to 3% for 2022-23 (at 2.8%). However, OICs average days taken to let void properties at 57.9 days is slightly higher than the Scottish Average at 55.6 days. We do acknowledge that 2021-22 was still a COVID year which will have impacted on reported performance. Any improvement that can be made on average days to re-let strengthens the financial performance of the HRA.
- Arrears at 14%. Rent arrears in Orkney have been rising year on year since 2013. Actual arrears in 2021-22 were 13.5% compared to the Scottish average of 7.8%. We understand work is underway to address this. The level of arrears will be kept under review as there is likely to be further upward pressure as the last group of housing benefit claimants are migrated to universal credit (ie no longer direct payment to OIC). In the current financial year (2023-24) the actual write off (mainly of former tenant arrears) will be higher than in previous years to allow available resources to focus on collection of current rent arrears.
- Bad debt write off at 0.8%, which reflects the Scotland wide average. The actual write off for Orkney was 0.4% in 21-22 which is low compared to the sector average.

Service charges and other income on the HRA Income statement is de minimus and so has not been analysed further.

3.3 Supervision and Management Costs

Supervision and management costs are budgeted at £0.858M this financial year (23-24). A breakdown is provided below.

Supervision and Management	23-24	As %
Employee Costs	£493,800	58%
Administration Costs	£33,200	4%
Apportioned Costs	£331,000	39%
Total	£858,000	100%
Per Unit (Based on 1008 units)	£851	

The draft HRA for 24-25 includes an uplift of 4% for supervision and management costs, so total provision of £0.892M (which is equivalent to £885 per property). This includes provisions for an estimated 2% pay award increase.

Our review of the cost structure of the OIC's HRA suggests lower levels spent on supervision and management. The actual average supervision and management costs across Scotland in 2021-22 and 2022-23 was £915 and £1,011 per property. The equivalent Scotland wide figure for 2023-24 is not yet available.

Further work would be required to establish whether spending on supervision and management is low relative to others or whether there is a possible classification issue (maintenance overhead, for example) as OICs overall unit cost is higher than average when spending on repairs and maintenance is also taken into account.

Apportioned costs also remain a significant proportion of the HRA's total supervision and management costs (at 39%) and will need to be kept under review to ensure full compliance with Principle 3 of the 2014 HRA Guidance which states:

“that there is a robust, written methodology for calculating and allocating HRA costs (including internal costs charged by the Council to the HRA) in sufficient financial detail for tenants to understand why costs are being charged and who is benefiting from the services these costs relate to. This must include the allocation to the HRA of the appropriate proportion of council Trading Operation surpluses attributable to council housing activities. Furthermore, the HRA cost allocation methodology must also be updated regularly to reflect changes in legislation, statutory guidance, codes of practice, the market for HRA goods and services and any other relevant changes (section 7 of this Guidance)”.

3.4 Property Repairs and Maintenance

OIC's expenditure on repairing and maintaining the HRA properties this year is budgeted at £1.7M. OIC's expenditure on repairing and maintaining its properties is high at £1,686 budgeted per property this year compared to a Scotland wide average of £1,556 for 22/23. The budget this year includes £0.6M in planned works (inclusive of in-house fees). A review of the reactive, void and cyclical works highlights significant increase in expenditure over the past 2 years – particularly in reactive repairs (41%) and in cyclical works (52%).

	21-22 £	23-24 £	Increase (2YRS) %
Reactive	295,000	415,200	41%
Voids	328,000	368,100	12%
Cyclical	60,000	91,100	52%
In House Prof Fees	197,400	216,200	10%
Repairs + Maintenance	880,400	1,090,600	24%
Planned works		609,100	
All Reactive + Planned		1,699,700	

An extract of the performance statistics for the last reported year in relation to quality and maintenance of homes are also summarised below. OIC has some unique challenges in respect of repairing and maintaining the Council's housing stock to ever-increasing property compliance standards. However, notwithstanding any recovery from COVID (which may in part explain increased spending) and the unique location and characteristics of the stock, the higher costs require further consideration as, on the face of it, the higher cost is not delivering higher repairing standards for tenants, particularly in respect of right first time repairs. It will therefore be important going forward to understand who is bearing the cost of not getting it right first time – for 2nd, 3rd, or even 4th visits to complete a repair. Value for money and more importantly here for the HRA, value for tenant's rents is an essential requirement and the repairs service would appear to be an area requiring further examination.

Quality and maintenance of homes	Orkney Islands Council	Shetland Islands Council	Aberdeen City Council	Aberdeenshire Council	Relative Performance	All Scotland
Percentage of homes meeting the Scottish Housing Quality Standard2022/2023	53%	77%	78%	65%	Lowest	78.98%
Average number of hours taken to complete emergency repairs2022/2023	9.1	3.7	3.9	2.5	Highest	4.17%
Average number of days taken to complete non-emergency repairs2022/2023	15.2	7.7	14.1	21.6	High	8.68%
Percentage of reactive repairs carried out in the last year completed right first time2022/2023	80%	92%	76%	86%	Lower	8.78%
Percentage of tenants who have had repairs or maintenance carried out in the last 12 months who were satisfied with the repairs and maintenance service2022/2023	89%	86%	86%	91%	High	N/A

The draft HRA budget for 24/25 for repairs, voids and cyclical works is based on the same level of provision.

3.5 Other Revenue Expenditure

The base plan includes the following additional provision for 24/25:

Other running costs	23-24
Supplies and Services	£44,000
Transport Costs	£19,000
Third Party Payments	£19,700
Transfer Payments	£8,500
Miscellaneous Expenditure	£103
Total other running costs	£91,303

3.6 Inflation & Real Price Movements

The following assumptions have been assumed in the base draft plan:

- CPI at 4% during 24/25 then returning to the Bank of England target rate of 2% for the UK economy from 25/26.
- Rent increase 6.7% at April 2024, then CPI + 1% for 2 years, then CPI+0.5% for 2 years and CPI only from 2029/30.
- Supervision and Management costs increase of 4% at April 2024 then CPI + 0.5% for 2 years, followed by CPI+0.25% for a further 2 years and then CPI only thereafter.
- Repairs and maintenance costs at current budget (as currently considerably higher than average) then CPI + 0.5% for 2 years, then CPI+0.25% for 2 years and CPI only thereafter.
- Investment and EESSH at today's prices (as provided) then CPI + 0.5% for 2 years, then CPI+0.25% for 2 years and CPI only thereafter.

3.7 Useable reserves

In forecasting the 30-year financial plan we have assumed that the Council maintains a minimum level of useable reserves of £0.500M throughout the life of the plan. On this basis, all other HRA revenue surpluses generated through the term of the plan are assumed to be made available to support capital expenditure.

OICs Annual Accounts to 31st March 2023 confirm that the HRA had useable reserves of £0.503M, down from £0.677M held at 1st April 2022. The financial plan will require to be updated to reflect the actual outturn for this financial year once the accounts to 31st March 2024 have been prepared.

4. HRA Capital Programme Assumptions

4.1 Meeting the Long-Term Investment Needs of the Existing Stock

The draft plan includes OIC's estimates of the long-term expenditure on major component replacement, compliance with the Social Housing Quality Standard (SHQS) and energy efficiency. OIC estimates that the total investment required over the next 30 years is £58.855M and is based on current price levels (Q3, 2023).

The total estimated cost of £58.855M represents an increase of £15.6M (or 36%) on the previous estimates. The combination of planning to meet increasing property standards alongside the significant upward pressure on OIC's recent experience of tender prices has had a significant impact on the estimated cost of continuing to maintain the Council's existing housing stock.

A breakdown of the nature of the component replacement expenditure requirement then the energy efficiency spend is provided below.

Component replacement expenditure

A total of £37.335M is required to deliver on core life cycle replacement works on the Council dwellings with kitchens (28%), roof works (18%) bathrooms (18%), windows (14%) and doors (10%) comprising the main areas of spend. A summary by key component and timescale (based on component replacement date) is provided below.

	YRS 1-5	YRS 6-10	YRS 10-20	YRS 21-30	Totals	As %
Windows	£421.2	£437.4	£2,862.0	£1,609.2	£5,329.8	14%
Doors	£97.2	£284.4	£2,505.6	£666.0	£3,553.2	10%
Kitchens	£1,807.7	£1,842.9	£3,291.9	£3,650.6	£10,593.2	28%
Bathrooms	£192.0	£746.6	£2,655.8	£1,669.2	£5,263.7	14%
Heating	£713.6	£396.8	£966.4	£1,081.6	£3,158.4	8%
Roof works	£1,437.5	£1,300.0	£3,262.5	£775.0	£6,775.0	18%
Smoke Detector	£0.0	£296.1	£296.1	£296.1	£888.3	2%
Electrical Upgrades	£24.2	£0.0	£187.0	£1,562.0	£1,773.2	5%
TOTAL	£4,693.4	£5,304.2	£16,027.3	£11,309.8	£37,334.8	100%
Annual Average Spend	£938.7	£1,060.8	£1,602.7	£1,131.0	£1,244.5	
As %	13%	14%	43%	30%	100%	

This shows:

- An estimated annual capital expenditure required of £0.938M over the next 5 years on component replacement cost alone, rising to just over £1M from year 6.
- Higher than average expenditure requirements of £1.6M from year 11 (2035). This reflects higher spend across most components rather than a spike in volume of work in one area; and,
- Annual capital expenditure requirements reducing back to £1.1M beyond year 20.

Energy efficiency

The total estimated cost of meeting the energy standard is £21.520M or £21,498 per property on average. A breakdown is provided below.

House Type	Description	Cost of Measures	No. of Properties	Total Cost
0	Exemption	£0	41	£0
1	Meets EESSH2 Standard	£0	203	£0
2	Timber kit, blocked-in	£22,200	324	£7,192,800
3	Timber kit, already externally insulated not blocked-in	£9,700	19	£184,300
4	Cavity wall -add internal insulation	£33,032	258	£8,522,256
5	Cavity wall no space inside - Add external wall insulation	£43,031	37	£1,592,147
6	Solid block wall	£43,031	4	£172,124
7	Solid stone wall	£33,700	87	£2,931,900
8	Solid stone listed building / restrictions	£33,032	28	£924,896
			1001	£21,520,423

This shows:

- A total of £21.520M required to deliver EESSH.
- A total of 757 properties requiring investment ranging from an average cost of £9,700 per property (on house type 4 – the 19 Timber kit, already externally insulated properties) to £43,031 per property (on house types 5 and 6).

- A total of 203 properties assumed to meet the standard and not requiring further energy efficiency investment and,
- A total of 41 properties with exemption.

It should be noted that the EESSH standard continues to be the subject of review and the latest iteration “Building with Heat” is out for consultation with responses expected back by 8th March. The cost of energy transition will therefore be subject to further review.

In terms of scheduling this expenditure, the impact of planning delivery over different timescales is set out in the sensitivity testing which follows later in this report.

The investment on energy efficiency measures is expected to contribute to alleviating energy cost pressure and fuel poverty. However, it is not possible to quantify, at this stage, the likely savings for tenants.

4.2 Provision of New Housing Supply

We have assumed 135 new homes available for social renting over the next 10 years based on a net cost to the council of £15.525M. The average rent, void rent loss and bad debt provision assumption together with the marginal operating costs and ongoing component replacement provisions of the new build properties are summarised below.

Rent per Unit pa £	Void Rent Loss & Bad Debt Write Off %	Supervision & Management Costs per unit pa £	Repairs & Maintenance Costs per unit pa £	L/Cycle Costs per unit pa £
£4,784	1.00%	£300	£600	£750

We have also included completion of the two developments which are currently under way – 14 units at Carness (due for completion in February) and 4 units at Moar Drive (due for completion in July).

4.3 Other Investment Requirements

The draft plan for 24/25 includes an additional £0.255M to cover additional investment in systems and procurement of a stock condition survey. This has been scheduled as a total £0.085M per year for the next 3 years in other general revenue costs.

4.4 HRA Debt and Debt Servicing

The draft plan is based on HRA debt outstanding of £10M. This reflects an estimated increase in borrowing on the HRA of £1.462M this financial year by 31/03/2024 with estimated total loan charges of approximately £0.880M for 2024/25 and covering capital repayment, interest and debt management fees.

Interest on existing debt is assumed at a consolidated loans fund rate of circa 3.46% with debt management expenses also assumed at 0.26%. Interest (all-in cost of finance) on new debt is assumed at 5.25%.

4.5 Prudential Borrowing Limits

The Local Government in Scotland Act 2003 places a local authority under a statutory duty to determine the amount they can afford to allocate to capital expenditure. In doing so they are required to have regard to the Prudential Code issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This requirement is contained in SSI 2004/29, the Local Authority Capital Expenditure Limits (Scotland) Regulations 2004.

The Prudential Code requires that the capital investment plans of the local authority are affordable, prudent and sustainable. A local authority can borrow for capital investment and is responsible for making their own decisions about how much they can afford to borrow to support capital expenditure plans.

In relation to HRA, the council, as a landlord, has responsibility for ensuring the HRA operates in accordance with the law but also that HRA capital investment plans are affordable, sustainable, and prudent. This means that they must consider the implications of capital expenditure on council rent levels when deciding whether to borrow to fund capital investment plans.

Local authorities must also consider the implications of rising operating costs on the HRA and rent levels. HRA cost, and thus rent, increases that are not transparent as to their purpose or benefit will come under increased scrutiny from tenants when they are contributing to the prospect of higher rent levels.

OIC's prudential limits and indicators are set out in Appendix 5 of the 2023-24 approved treasury management policy. The key prudential limit relevant to the HRA is that 35% should be regarded as the upper limit for the cost of capital relative to net revenue on the Housing Revenue Account, for the term of the current 5-year capital programme. This limit of 35% has been incorporated into the financial model and stress tested.

The 2023-24 treasury management plan also set out the anticipated prudential indicators for the HRA based on the current 5-year programme.

Ratio of Financing Costs to Net Revenue Stream					
	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
HRA	19.50%	19.10%	19.50%	18.80%	18%

Ratio of HRA debt to HRA Revenues %					
	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
HRA debt £M	£10.094	£10.471	£11.541	£12.236	£11.838
HR revenues £M	£3.935	£4.186	£4.343	£4.453	£4.711
%	38.98%	39.98%	37.63%	36.39%	39.80%

Debt Per Dwelling					
	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
HRA debt £M	£10.094	£10.471	£11.541	£12.236	£11.838
Nr of HRA Dwellings	981	989	1,027	1,027	1,027
Debt per dwelling	£10.290	£10.587	£11.238	£11.914	£11.527

As stated, the prudential limit of 35% has been incorporated into the financial model and stress tested together with the above prudential indicators.

The treasury management policy and the prudential code place certain statutory duties on the section 95 officer (senior finance officer to the Council).

4.6 Other sources of capital funding

In the draft plan we have assumed:

- Grant has been assumed to part fund the new build units – the new supply programme is currently scheduled based on net financing requirement per unit of £0.115M.
- HRA surpluses are available to support the financing of the capital expenditure programme. Council tax second home income of £0.240M per annum as a revenue contribution towards capital expenditure
- Some limited capital receipts from the sale of low demand properties (4).

5. 30 Year HRA 24-25 update

5.1 Basis of the HRA update

The draft 30-year financial plan has been established from a review of OIC's budget and expected outturn for 2023/24, a review of historical actual income and expenditure (we examined the financial performance of the HRA over the past 10 years) & the currently approved 30-year plan.

Our proprietary HPLAN Model was updated to reflect the following two aspects for OIC:

- The standard appraisal period of 30 years was extended to 60 years to allow further stress testing, albeit we have focussed on the initial 30 years for the purposes of this report; and,
- An additional report was incorporated to report on OICs prudential indicators in the format set out in Appendix 5 of the treasury management policy. This means that as the model is updated and/or various scenarios or stress testing is performed, compliance with the prudential indicators is assessed/integrated.

5.2 Draft HRA Revenue Account Projections 2024-25 to 2028-29

The draft 5-year plan covering the period to 31st March 2029 is summarized below.

HRA	1	2	3	4	5
	2024/25	2025/26	2026/27	2027/28	2028/29
Income	£000s	£000s	£000s	£000s	£000s
Rents	£4,652	£4,923	£5,148	£5,356	£5,572
Service & Other Charges	£0	£0	£0	£0	£0
Voids & Bad Debts	-£153	-£141	-£135	-£121	-£112
Other income	£265	£277	£283	£291	£298
Total Income	£4,764	£5,058	£5,297	£5,526	£5,757
Expenditure (Revenue)					
Supervision and Management	£927	£971	£1,000	£1,027	£1,056
Repairs and Maintenance	£2,103	£1,923	£1,894	£1,398	£1,741
Service Costs	£0	£0	£0	£0	£0
Other stock-related costs	£21	£22	£23	£23	£24
Other general running costs	£330	£345	£353	£268	£274
Loan Charges (existing + new debt)	£823	£888	£967	£984	£1,051
Total Expenditure (Revenue)	£4,204	£4,149	£4,237	£3,701	£4,146
Interest earned	£0	£10	£10	£25	£10
HRA Surplus/(Deficit)	£560	£920	£1,070	£1,850	£1,621

This is based on meeting the planned maintenance requirements of the stock directly from revenue. The draft capital improvement programme is set out in the next section.

5.3 Draft Housing Capital Expenditure Programme 2024 to 2029

The illustrative capital expenditure provision is summarized below. This is based on completion of 15 new build social housing units each year from 2025/26 and the energy efficiency works assumed to commence from year 3 of the plan. These are indicative only and will need to be finalized through the Council's capital improvement approval process.

Years	1	2	3	4	5
	2024/25	2025/26	2026/27	2027/28	2028/29
Capital Expenditure	£000s	£000s	£000s	£000s	£000s
Life Cycle Replacement - Housing (Incl. New Dev CFs)	£0	£0	£0	£0	£0
Other stock-related investment - EESSH	£0	£0	£803	£1,053	£1,005
New Development and Acquisition	£392	£1,794	£1,830	£1,866	£1,904
Other general investment	£0	£0	£0	£0	£0
Total	£392	£1,794	£2,633	£2,920	£2,908
Funded By					
New Borrowing	£392	£820	£1,569	£828	£1,538
Contribution from revenue	£0	£974	£1,064	£2,091	£1,370
Grant	£0	£0	£0	£0	£0
Total	£392	£1,794	£2,633	£2,920	£2,908

The estimates will require some further scheduling and refinement as the programmes of work are managed eg once actual site-specific proposals/appraisals are brought forward for the new build programme.

The maximum ratio of debt to net revenue on this basis over the period to 31st March 2029 is shown below. This is forecast to be well within the 35% limit. Compliance with the full range of prudential indicators across the 30-year plan is set out in Appendix 1.

Ratio of Financing Costs to Net Revenue Stream					
	2024/25	2025/26	2026/27	2027/28	2028/29
	Estimate	Estimate	Estimate	Estimate	Estimate
HRA	17.28%	17.55%	18.25%	17.81%	18.26%

Whilst further refinement/rescheduling is inevitable, our analysis suggests the 5-year outlook for the HRA is reasonable. However, our analysis also suggests that the longer-term outlook is challenging as

- The capital investment requirements have increased considerably, and this is most exerting most pressure. This includes the investment required in the existing stock and for new housing supply.

- Investment needs outstrips financial capacity over the long term so investment choices will have to be prioritised and resources optimised to deliver value for money and value for rents.
- Costs have been rising faster than income. It is important to addressing areas of highest spend and protect the ability to generate strong HRA surpluses each year. This will be increasingly important.

5.4 Long Term Financial Plan

The full 30-year projections are set out in Appendix 2. The long-term projections demonstrate that:

- For the duration of the plan the available resources are fully allocated, meeting the investment needs and cost of managing the existing stock, delivering the new build programme and servicing debt.
- The HRA can reasonably be described as constrained in the medium and longer term with the investment needs of the stock and the HRA debt obligation fully absorbing the resources available (until year 26 of the plan).
- The closing balance at the term of the plan (30 years from now) is an estimated £3.1M at year 25 and £16.289M at year 30. Whilst the Council is able to service its existing debt of £10M (which is circa £10,000 per property and the new debt there will still be a residual outstanding debt balance at year 30 on the new debt given that the proposed new build programme is a minimum 10-year investment programme, as is the Energy Transition investment.
- OIC is forecast to exceed the 35% prudential limit from around year 21 (on the basis of the base plan without further corrective action ie no grant for energy transition is available, for example).

However, our analysis also suggests that with some appropriate financial structuring, rescheduling and smoothing of investment profiles to control the pace of investment and the effective strategic financial management of the assets (including some modest sales of surplus units – 4 or 5 initially) the plan is forecast to remain compliant with the prudential limits over the longer term.

Going forward the Council may wish to set minimum revenue balances to be maintained (at agreed levels) to help future proof the HRA and ensure cash reserves are available on the HRA as and when they are required for investment in tenants' homes. We have assumed a minimum £0.500M in the base plan.

Whilst the HRA is currently cash generative and is forecast to generate reasonable HRA surpluses to support capital investment. There are some big challenges for the HRA in the short-term planning horizon. The scale of the investment challenge both in terms of meeting the investment needs of the existing housing stock (including working towards delivery of the energy efficiency standard in whatever

format it takes) and delivering new social housing units combined with some operational challenges (higher than average costs, increasing arrears, some low demand & unpopular properties).

The long-term challenge for the HRA is how to facilitate the pace and scale of investment required in the existing housing stock with the requirement for investment in new social housing whilst keeping rents and debt levels affordable within the HRA and the local housing markets in some form of equilibrium.

5.5 Sensitivity analysis

We have set out over page the sensitivity tests and scenarios illustrating the impact of certain changes or key decisions on the HRA. This includes a balance of those that are:

- Directly in the control of the Council e.g. whether to invest in certain stock or not and changes like these tend to focus on issues in the internal environment in which the Council operates and the key decisions it makes or does not make.
- Not within the direct control of the Council and these are typically pressures on the HRA from the wider external environment e.g. increases in interest rates or inflation; and,
- A few that perhaps fall somewhere in between.

In undertaking the sensitivity testing, we are seeking to establish the capacity or overall strength of the HRA to:

- Facilitate further investment in the existing stock and new housing supply and without breaching the prudential limit of 35%.
- Withstand change and manage key financial risks (if the HRA has no financial capacity to weather at least some risk then the plan is rendered non-viable).
- The extent to which the change impacts positively or negatively on the overall financial capacity of the HRA and the overall viability and value for money of various changes. Improving the financial capacity of the HRA provides the opportunity to identify and potentially unlock additional resources for investment.

The table that follows sets out the findings of some of the sensitivities conducted.

		NPV £000s	Peak Debt £000s	YR Peak Debt	HRA Balance Maintained at more than £0.5M	Prudential borrowing<35%
1	Baseline	£6,399	£17,507	20	Yes	Pressure from YR21
	Individual/discrete sensitivity tests					
2	Discount rate at 3.5%	£10,728	£17,507	20	Yes	Pressure from YR21
3	Rent uplift 1st April 2024 at 7.2%	£6,719	£16,646	20	Yes	Pressure from YR23
4	Rent uplift 1st April 2025 at 6%	£6,080	£18,360	20	No	Pressure from YR21
5	Annual rent uplift from year 6+0.5%	£10,463	£15,883	20	Yes	Yes
6	Improved rent income collection	£6,385	£16,322	20	Yes	Pressure from YR23
7	Repairs expenditure/opex -£200k pa	£8,999	£12,727	10	Yes	Yes
8	Interest rates pressure +0.5%	£6,120	£18,420	20	No	Pressure from YR19
9	Sale of 4 long term void properties	£6,808	£16,351	20	Yes	Pressure from YR21

The sensitivity analysis shows:

- the approved plan is sensitive to changes in each of key variables tested and faces long-term constraint because of the scale of investment required but that, other things remaining equal, there remain opportunities to improve the financial capacity of the HRA;
- the HRA performs better, well even under a range of scenarios which demonstrates the opportunity to improve financial capacity in the HRA for example, tackling the under-performing stock can enhance value for money and has a significant impact on the HRA to free up financial capacity for re-investment in more sustainable properties which are not beyond their useful economic life. The opportunity cost of not tackling under performing stock is significant.

- Continuing to make progress on the performance challenges – arrears management (which is a challenge across the sector), time taken to relet properties, getting more repairs right 1st time and reducing the time taken to complete repairs will all help to strengthen the HRA by increasing income and reducing expenditure, other things remaining equal. Modest incremental improvements made this year and next year will have long term financial impacts and benefits and help strengthen the HRA's financial capacity.
- Focusing on unit costs per property will also be beneficial. OIC has higher than average annual operating expenditure per unit attributable to higher spending per unit on property repairs and maintenance (so not in supervision and management which is lower than average)

There are also other things that can also be discussed with colleagues across departments to maximise the use of HRA resources:

- Financial strategy – taking an even longer-term view - 50 years rather than 30 years in appraisals and perhaps in borrowing periods may be appropriate for consideration. Our proprietary HPLAN tool enables up to 60 years appraisal term.
- Funding opportunities - it may also be worth considering if all income sources have been maximized for both tenants and for the HRA. Securing external grant where possible (this will be critical for the Energy Efficiency investment to keep the plan within the 35% prudential borrowing limit). We have not assumed any grant for Energy Efficiency in the base plan).
- Driving out efficiency in procurement and management of contracts. Repairs costs are higher, and the service standards received by OIC tenants are lower. This merits further consideration.
- Considering a proactive disposal strategy and/or appraisal for alternative user for all properties which are low demand and/or problematic to let. There are some long-term voids to be addressed.

At this stage, the sensitivities and scenarios remain illustrative only. However, that said, they do provide a good basis for discussion as they quantify the potential impact of positive action and equally the financial risks and opportunity cost in the absence of a change in approach. A **focus on value for money** and **tackling underperforming stock** as part of a strategic investment approach to managing and maintaining the existing stock will have a significant impact on the HRA and the ability to free up financial capacity.

6. Other Considerations

6.1 Borrowing limits

A full review of the debt profile (in treasury management terms) is beyond the scope of this work however it does merit further consideration review and it is relevant to note a previous observation by Rob Whiteman, CBE, the Chief Executive of the Chartered Institute of Public Finance and Accountancy (CIPFA)

“Given the massive changes taking place in the funding of local government, **it is arguably more important than ever that councils receive more freedoms and powers to borrow**, rather than being restrained in their efforts to sustain their beleaguered finances.” He also stated “There is a dilemma, however, that councils can afford to borrow for commercial purposes but cannot borrow to provide services. The government allows them to borrow to buy retail parks in other parts of the country but will not allow them to freedom to build the many more council homes needed in their own areas to tackle homelessness”.

It is also arguably a suboptimal constraint when – provided it is appropriately managed and maintained – housing can considerably generate income over the longer term.

A freeing up of the HRA borrowing cap would considerably assist local authorities with their housing building programmes over the next couple of years **on the condition that each Council maintains a prudent debt repayment profile.**

Many medium and smaller sized social landlords have used £15k-£20k per unit as a bit of a litmus benchmark for their borrowing whilst some of the larger groups (with significant development programmes) have borrowing considerably more than this.

6.2 New Build Rents

Scottish Government has previously raised concerns that rent levels on schemes development since 2012 are high and these should be brought into line. As part of the rent increase scenarios for 1st April 2024 we conducted a review of the rents across all OICs council dwellings at individual property level and considered these against the current LHA levels (which have been frozen in cash terms since 2020).

Following the Chancellors announcement in the Autumn Statement, LHA rates across the UK are to be updated to the 30th percentile of local market rents from April 2024. Once re-considered against the updated LHA rates, then a harmonisation plan, phased in over a reasonable period (3 years was discussed) and commencing from 1st April 2025 can then be agreed and implemented. It is expected that this should take place with no detriment to the HRA gross rental income stream ie it will not reduce the total amount currently available but will just stem future increases for those individual tenants involved.

7. Conclusions and Recommendations

We have examined OIC's HRA in some detail. Our analysis suggests OIC's HRA is able to demonstrate the generation of reasonable HRA surpluses, year on year, to support capital investment in the housing stock and some new housing supply.

However, there are long term challenges to address:

- The capital investment requirements have increased considerably, and this is exerting most pressure. This includes the investment required in the existing stock and for new housing supply.
- Investment needs outstrips financial capacity over the long term so investment choices will have to be prioritised and resources optimised to deliver value for money and value for rents.
- Costs have been rising faster than income. It is important to addressing areas of highest spend and protect the ability to generate strong HRA surpluses each year. This will be increasingly important.

The strategic long-term challenge for the HRA is how to facilitate the **pace and scale** of investment required in both the existing housing stock and delivery of new social housing whilst keeping rents and debt levels affordable within the HRA and keeping the local housing markets in some form of equilibrium. Inability to provide new social housing ultimately will create additional costs pressure back through to the General Fund through presentation in homelessness etc as we are seeing currently through the increase in temporary housing costs for local authorities across the UK.

Based on our analysis, we are recommending the following:

- Commissioning of a full stock condition survey to validate the investment needs of the existing stock
- Review of the repairs service, in particular, right first-time performance and costs, and approach to revenue v planned maintenance of the housing stock.
- Building on a strategic approach to asset management and investment planning of the existing stock (incorporating a disposal programme including for the long-term void schoolhouses as an example)
- Investment in an IT upgrade to facilitate housing service enhancement and improvements in processes/the customer journey.
- Development of the programme/pipeline of sites suitable for social housing provisions and progressing with priority sites, within the context of OIC's approval frameworks including the scheme of delegation and financial regulations of the council.

- Review of OIC's rents against the LHA rates effective from 1st April 2024, once these are published/ available to establish a harmonisation plan to address the 'high rent' concerns of the Scottish Government, phased in over a reasonable period (3 years was discussed) and implemented from 1st April 2025. It is expected that this should take place with no detriment to the HRA gross rental income stream ie it will not reduce the total amount currently available but will just stem future increases for those individual tenants involved.
- The 5-year Capital Expenditure Programme set out in section 5.3 is taken forward for approval through OICs capital improvement process.

In addition, as a significant level of capital investment is required over the next 5-10 years, we recommend that the 30year financial plan is updated through the course of the financial year to support and reflect decisioning making around all material investment programmes.

Appendix I – Life Cycle Component Replacement Estimates

30 Year Cost Projection (based on Renew Dates)											
	Year	Windows	Doors	Kitchens	Bathrooms	Heating	Roof works	Smoke Detector	Electrical Upgrades	TOTAL	
1	2024	£ 48,600.00	£ 3,600.00	£ 309,496.00	£ 5,333.00	£ 355,200.00	£ 337,500.00	£ -	£ -	£ 1,059,729.00	
2	2025	£ 118,800.00	£ 21,600.00	£ 415,006.00	£ 69,329.00	£ 118,400.00	£ 1,075,000.00	£ -	£ 8,800.00	£ 1,826,935.00	
3	2026	£ 253,800.00	£ 72,000.00	£ 281,360.00	£ 106,660.00	£ 99,200.00	£ -	£ -	£ 2,200.00	£ 815,220.00	
4	2027	£ -	£ -	£ 365,768.00	£ -	£ -	£ -	£ -	£ -	£ 365,768.00	
5	2028	£ -	£ -	£ 436,108.00	£ 10,666.00	£ 140,800.00	£ 25,000.00	£ -	£ 13,200.00	£ 625,774.00	
6	2029	£ -	£ -	£ 91,442.00	£ -	£ -	£ 125,000.00	£ 300.00	£ -	£ 216,742.00	
7	2030	£ 64,800.00	£ 21,600.00	£ 98,476.00	£ 69,329.00	£ 86,400.00	£ 350,000.00	£ 282,300.00	£ -	£ 972,905.00	
8	2031	£ -	£ -	£ 618,992.00	£ 5,333.00	£ 57,600.00	£ 525,000.00	£ 10,500.00	£ -	£ 1,217,425.00	
9	2032	£ 324,000.00	£ 230,400.00	£ 450,176.00	£ 405,308.00	£ 153,600.00	£ 75,000.00	£ 2,400.00	£ -	£ 1,640,884.00	
10	2033	£ 48,600.00	£ 32,400.00	£ 583,822.00	£ 266,650.00	£ 99,200.00	£ 225,000.00	£ 600.00	£ -	£ 1,256,272.00	
11	2034	£ 102,600.00	£ 90,000.00	£ 372,802.00	£ 229,319.00	£ 12,800.00	£ 12,500.00	£ -	£ 28,600.00	£ 848,621.00	
12	2035	£ 345,600.00	£ 601,200.00	£ 309,496.00	£ 341,312.00	£ 16,000.00	£ 125,000.00	£ -	£ -	£ 1,738,608.00	
13	2036	£ 361,800.00	£ 205,200.00	£ 365,768.00	£ 207,987.00	£ 57,600.00	£ 250,000.00	£ -	£ -	£ 1,448,355.00	
14	2037	£ 205,200.00	£ 180,000.00	£ 126,612.00	£ 250,651.00	£ 25,600.00	£ 1,400,000.00	£ -	£ -	£ 2,188,063.00	
15	2038	£ 194,400.00	£ 172,800.00	£ 84,408.00	£ 223,986.00	£ 25,600.00	£ 725,000.00	£ -	£ 99,000.00	£ 1,525,194.00	
16	2039	£ 307,800.00	£ 180,000.00	£ 182,884.00	£ 79,995.00	£ 6,400.00	£ 37,500.00	£ 300.00	£ -	£ 794,879.00	
17	2040	£ 302,400.00	£ 266,400.00	£ 175,850.00	£ 69,329.00	£ 48,000.00	£ 200,000.00	£ 282,300.00	£ 24,200.00	£ 1,368,479.00	
18	2041	£ 491,400.00	£ 406,800.00	£ 443,142.00	£ 485,303.00	£ 432,000.00	£ 150,000.00	£ 10,500.00	£ 15,400.00	£ 2,434,545.00	
19	2042	£ 286,200.00	£ 208,800.00	£ 576,788.00	£ 325,313.00	£ 198,400.00	£ 337,500.00	£ 2,400.00	£ 6,600.00	£ 1,942,001.00	
20	2043	£ 264,600.00	£ 194,400.00	£ 654,162.00	£ 442,639.00	£ 144,000.00	£ 25,000.00	£ 600.00	£ 13,200.00	£ 1,738,601.00	
21	2044	£ 167,400.00	£ 111,600.00	£ 309,496.00	£ 298,648.00	£ 89,600.00	£ 175,000.00	£ -	£ 11,000.00	£ 1,162,744.00	
22	2045	£ 140,400.00	£ 118,800.00	£ 415,006.00	£ 234,652.00	£ 217,600.00	£ 237,500.00	£ -	£ 13,200.00	£ 1,377,158.00	
23	2046	£ 221,400.00	£ 140,400.00	£ 281,360.00	£ 303,981.00	£ 227,200.00	£ 75,000.00	£ -	£ 22,000.00	£ 1,271,341.00	
24	2047	£ 21,600.00	£ 10,800.00	£ 365,768.00	£ 85,328.00	£ 38,400.00	£ -	£ -	£ -	£ 521,896.00	
25	2048	£ -	£ 7,200.00	£ 436,108.00	£ 58,663.00	£ 147,200.00	£ 87,500.00	£ -	£ 4,400.00	£ 741,071.00	
26	2049	£ 151,200.00	£ 7,200.00	£ 91,442.00	£ 53,330.00	£ 48,000.00	£ 100,000.00	£ 300.00	£ 4,400.00	£ 455,872.00	
27	2050	£ 64,800.00	£ 36,000.00	£ 98,476.00	£ 133,325.00	£ 102,400.00	£ -	£ 282,300.00	£ 15,400.00	£ 732,701.00	
28	2051	£ 540,000.00	£ 147,600.00	£ 618,992.00	£ 282,649.00	£ 121,600.00	£ -	£ 10,500.00	£ 180,400.00	£ 1,901,741.00	
29	2052	£ 210,600.00	£ 54,000.00	£ 450,176.00	£ 111,993.00	£ 76,800.00	£ 62,500.00	£ 2,400.00	£ 1,214,400.00	£ 2,182,869.00	
30	2053	£ 91,800.00	£ 32,400.00	£ 583,822.00	£ 106,660.00	£ 12,800.00	£ 37,500.00	£ 600.00	£ 96,800.00	£ 962,382.00	
		£ 5,329,800.00	£ 3,553,200.00	£ 10,593,204.00	£ 5,263,671.00	£ 3,158,400.00	£ 6,775,000.00	£ 888,300.00	£ 1,773,200.00	£ 37,334,775.00	
		20% of Cost EESSH2	20% of Cost EESSH2			100% of Cost EESSH2				Allocated to EESSH2	
		£ 1,620,000.00	£ 69,840.00			£ 1,011,200.00				£ 1,243,040.00	

Appendix II – 30 Year HRA Projections

A - HRA REVENUE ACCOUNT PROJECTIONS (1st April 2024 to 31st March 2054)

R2a - HRA - Summary Cashflows - £000s - at Nominal Values Return to Menu										
KPIs	Max Debt	£17,507	Yr	20	30 Yr Cash	£16,289	NPV	£5,327	6%	
HRA SUMMARY CASHFLOWS	1	2	3	4	5	6 - 10	11- 15	16 - 20	21 - 25	26 - 30
	2024/25	2025/26	2026/27	2027/28	2028/29	2029/34	2034/39	2039/44	2044/49	2049/54
OPERATING ACTIVITY:										
Income										
Rents	£4,652	£4,923	£5,148	£5,356	£5,572	£30,891	£35,282	£38,954	£42,563	£47,485
Service & Other Charges	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Voids & Bad Debts	-£153	-£141	-£135	-£121	-£112	-£559	-£628	-£694	-£766	-£846
Other income	£265	£277	£283	£291	£298	£1,604	£1,815	£2,054	£2,323	£2,629
Total Income	£4,764	£5,058	£5,297	£5,526	£5,757	£31,937	£36,469	£40,314	£44,121	£49,268
Expenditure (Revenue)										
Management	£927	£971	£1,000	£1,027	£1,056	£5,686	£6,352	£7,013	£7,743	£8,549
Maintenance	£2,103	£1,923	£1,894	£1,398	£1,741	£8,942	£20,270	£19,038	£15,893	£19,599
Service Costs	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Other stock-related costs	£21	£22	£23	£23	£24	£0	£0	£0	£0	£0
Other general running costs	£330	£345	£353	£268	£274	£1,455	£1,606	£1,773	£1,958	£2,162
Total Expenditure (Revenue)	£3,381	£3,261	£3,271	£2,717	£3,095	£16,083	£28,228	£27,825	£25,594	£30,309
Net Operational Cash Flow from Renting Pre Finance Costs										
	£1,383	£1,797	£2,026	£2,809	£2,663	£15,854	£8,241	£12,489	£18,527	£18,959
Interest Earned	£0	£10	£10	£25	£10	£50	£50	£50	£50	£414
Financing Costs	£823	£888	£966	£984	£1,052	£5,948	£5,843	£5,621	£14,839	£5,299
HRA Surplus/(Deficit)	£560	£920	£1,070	£1,850	£1,621	£9,956	£2,448	£6,918	£3,738	£14,073

B – HRA Balance Maintained (Cash)

HRA Balance	1	2	3	4	5	6 - 10	11- 15	16 - 20	21 - 25	26 - 30
	2024/25	2025/26	2026/27	2027/28	2028/29	2029/34	2034/39	2039/44	2044/49	2049/54
Opening balance	£500	£1,060	£1,005	£1,011	£770	£720	£742	£769	£3,383	£3,097
HRA Surplus (In year)	£560	£920	£1,070	£1,850	£1,621	£9,956	£2,448	£6,918	£3,738	£14,073
Contribution to Capital	£0	£974	£1,064	£2,091	£1,671	£9,933	£2,421	£4,304	£4,024	£881
Balance CFWD	£1,060	£1,005	£1,011	£770	£720	£742	£769	£3,383	£3,097	£16,289
Balance Maintained Above £500k	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

C – CAPITAL IMPROVEMENT PROGRAMME

CAPITAL PROGRAMME	1	2	3	4	5	6 - 10	11- 15	16 - 20	21 - 25	26 - 30
	2024/25	2025/26	2026/27	2027/28	2028/29	2029/34	2034/39	2039/44	2044/49	2049/54
Capital Expenditure										
Life Cycle Replacement	£0	£0	£0	£0	£0	£0	£0	£723	£798	£881
New Build Development Programme	£392	£1,794	£1,830	£1,866	£1,904	£10,106	£0	£0	£0	£0
Other stock-related investment - EEESH	£0	£0	£803	£1,053	£1,005	£5,435	£4,776	£10,876	£3,226	£0
Total	£392	£1,794	£2,633	£2,919	£2,908	£15,540	£4,776	£11,599	£4,024	£881
Funded By										
New Borrowing	£392	£820	£1,569	£828	£1,237	£5,607	£2,356	£7,295	£0	£0
Contribution from revenue	£0	£974	£1,064	£2,091	£1,671	£9,933	£2,421	£4,304	£4,024	£881
Grant	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Total	£392	£1,794	£2,633	£2,919	£2,908	£15,540	£4,776	£11,599	£4,024	£881