Minute

Education, Leisure and Housing Committee

Wednesday, 7 February 2024, 09:30.

Council Chamber, Council Offices, School Place, Kirkwall.

Present

Councillors Gwenda M Shearer, Jean E Stevenson, Stephen G Clackson, Alexander G Cowie, James R Moar, Ivan A Taylor and Heather N Woodbridge.

Present via remote link (Microsoft Teams)

Graham A Bevan, Steven B Heddle, Rachael A King and John A R Scott.

Religious Representatives:

Reverend Susan Kirkbride and Marie Locke.

Clerk

- Hazel Flett, Service Manager (Governance).

In Attendance

- James Wylie, Corporate Director for Education, Leisure and Housing.
- Erik Knight, Head of Finance (for Items 3 to 11).
- Frances Troup, Head of Community Learning, Leisure and Housing.
- Claire Kemp, Assistant Principal, UHI Orkney (for Items 1 to 3).
- Garry Burton, Service Manager (Leisure and Culture).
- Morag Miller, Service Manager (Primary Education).
- Pat Robinson, Service Manager (Accounting).
- Nigel Fyffe, Team Manager (Maintenance and Heritage) (for Items 1 to 3).
- Nick Hewitt, Team Manager (Culture) (for Item 4 to 7).

In Attendance via remote link (Microsoft Teams)

- Peter Diamond, Head of Education.
- Catherine Diamond, Service Manager (Early Learning and Childcare) (for Items 1 to 5).
- Lesley Mulraine, Service Manager (Housing, Homelessness and Schoolcare Accommodation).
- Jane Partridge, Service Manager (Secondary and Tertiary Education) (for Items 1 to 4).
- Georgette Herd, Solicitor.
- Vikki Kerr, Team Leader (Libraries and Archives) (for Items 3 to 6).
- Sandra Craigie, Committees Officer.

Indigo House:

- Andrea Paterson, Director (for Items 4 to 8).

Observing

- David Brown, Service Manager (Resources).

Observing via remote link (Microsoft Teams)

- Kerry Spence, Service Manager (Community Learning, Development and Employability) (for Items 1 to 7).

Apologies

- Jo Hill, Teacher Representative.
- Reverend Fraser Macnaughton, Religious Representative.
- Mary Maley, Teacher Representative.

Declarations of Interest

- Councillor Steven B Heddle – Items 1 and 3.
- Councillor Rachael A King – Items 1 and 3.

Chair

- Councillor Gwenda M Shearer.

1. Revenue Expenditure Monitoring

Councillor Steven B Heddle declared an interest in this item, his connection being that his wife was the Director of the Institute for Northern Studies, and was not present during discussion thereof.

Councillor Rachael A King declared an interest in this item, her connection being that a close family member was employed at UHI Orkney, and was not present during discussion thereof.

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Service Manager (Accountancy), the Committee:

Noted:

1.1. The revenue financial summary statement, in respect of service areas for which the Education, Leisure and Housing Committee was responsible, for the period 1 April to 31 December 2023, attached as Annex 1 to the report by the Head of Finance, indicating a budget overspend position of £1,162,200.

1.2. The revenue financial detail by service area statement, in respect of service areas for which the Education, Leisure and Housing Committee was responsible, for the period 1 April to 31 December 2023, attached as Annex 2 to the Head of Finance.

The Committee scrutinised:

1.3. The explanations given, and actions proposed in respect of significant budget variances, as outlined in the Budget Action Plan, attached as Annex 3 to the report by the Head of Finance and obtained assurance that action was being taken with regard to significant budget variances.

Reverend Susan Kirkbride joined the meeting during discussion of this item.

2. Housing Revenue Account

Revenue Repairs and Maintenance Programmes – Expenditure Monitoring

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Head of Community Learning, Leisure and Housing, the Committee:

Noted:

2.1. The summary position of expenditure incurred, as at 31 December 2023, against the approved revenue repairs and maintenance programme in respect of the Housing Revenue Account, as detailed in section 4.2 of the report by the Head of Finance.

The Committee scrutinised:

2.2. The explanations given in respect of significant budget variances, as detailed in Appendix 1 to the report by the Head of Finance, and obtained assurance with regard to progress being made with delivery of the approved revenue repairs and maintenance programme for 2023/24 in respect of the Housing Revenue Account.

3. UHI Orkney – Draft Revenue Budget

Councillor Steven B Heddle declared an interest in this item, his connection being that his wife was the Director of the Institute for Northern Studies, and was not present during discussion thereof.

Councillor Rachael A King declared an interest in this item, her connection being that a close family member was employed at UHI Orkney, and was not present during discussion thereof.

After consideration of a report by the Corporate Director for Education, Leisure and Housing, copies of which had been circulated, and after hearing a report from the Service Manager (Secondary and Tertiary Education), the Committee:

Resolved to **recommend to the Council**:

3.1. That the draft revenue budget for UHI Orkney for financial year 2024/25, attached as Annex 1 to the report by the Corporate Director for Education, Leisure and Housing, be submitted to the Policy and Resources Committee for consideration through the budget setting process.

3.2. That the Corporate Director for Education, Leisure and Housing should submit, to the Education, Leisure and Housing Committee no later than September 2024, a recovery plan setting out how UHI Orkney would deliver a balanced budget for 2024/25, as well as repaying borrowed funds.

4. Housing Services – Performance Monitoring

After consideration of a report by the Corporate Director for Education, Leisure and Housing, copies of which had been circulated, and after hearing a report from the Service Manager (Housing, Homelessness and Schoolcare Accommodation), the Committee:

Noted:

4.1. That housing organisations were required to report performance against a number of service areas and indicators within the Scottish Social Housing Charter.

4.2. Performance in relation to the undernoted range of service areas within Housing Services for the reporting period 1 April 2022 to 31 March 2023, as detailed in Appendix 1 of the report by the Corporate Director for Education, Leisure and Housing:

- Customer Satisfaction.
- Housing Quality and Maintenance.
- Access to Housing and Support.
- Homelessness.
- Neighbourhood and Community.
- Getting Good Value from Rents.
- Re-lets and Voids.
- Customer/Landlord Relationship.

4.3. Areas of positive performance within Housing Services for the reporting period, as follows:

- Time to complete non-emergency repairs.
- Time to complete medical adaptations.
- Increase in Right First Time repairs.
- Level of stock meeting the Energy Efficiency Standard for Social Housing.
- Low levels of tenancy offers refused.
- Good levels of tenancy sustainment.
- Low levels of Anti-Social Behaviour.
- Low levels of abandonments/evictions.
- Reduction in time taken to assess a homeless application.
- Reduction in length of stay in temporary accommodation.
- Positive tenancy outcomes for homeless households.
- Overall percentage of rent collected continues to be high.

4.4. Areas where performance within Housing Services could potentially be improved or continue to be improved, as follows:

- Customer Satisfaction.
- Opportunities to participate in landlord decision making.
- Level of stock meeting the Scottish Housing Quality Standard.
- Increase is average time from homeless presentation to completion of duty.
- Increase in number of households in temporary accommodation.
- Increase in average days to re-let properties.
- Time to complete emergency repairs.
- High percentage of tenancies ending in arrears.
- Rent arrears remaining high.

4.5. That, as part of the performance monitoring processes for 2022/23, the Annual Assurance Statement required by the Scottish Housing Regulator was approved by Council in October 2023.

The Committee scrutinised:

4.6. Performance in relation to the range of service areas within Housing Services for the reporting period 1 April 2022 to 31 March 2023, as detailed in Appendix 1 attached to the report by the Corporate Director for Education, Leisure and Housing, and obtained assurance.

Councillor James R Moar joined the meeting during discussion of this item.

5. Early Learning and Childcare – Review of Policy

After consideration of a report by the Corporate Director for Education, Leisure and Housing, together with an Equality Impact Assessment, copies of which had been circulated, and after hearing a report from the Service Manager (Early Learning and Childcare), the Committee:

Noted:

5.1. That, on 6 February 2019, the Education, Leisure and Housing Committee recommended approval of the Early Learning and Childcare Policy.

5.2. That, since the policy was last considered at Committee, changes in national guidance had resulted in a small number of updates to the policy.

5.3. That the Early Learning and Childcare Policy had since been updated to reflect current practice, further national guidance and legislation.

The Committee resolved to **recommend to the Council**:

5.4. That the Early Learning and Childcare Policy, attached as Appendix 1 to this Minute, be approved.

Reverend Susan Kirkbride and Marie Locke left the meeting at this point.

6. Orkney Archive Service Accreditation

After consideration of a report by the Corporate Director for Education, Leisure and Housing, copies of which had been circulated, and after hearing a report from the Team Manager (Libraries and Archives), the Committee:

Noted:

6.1. That Orkney Archives first achieved accreditation in November 2017.

6.2. That, in October 2023, inspectors carried out a two-day inspection of Orkney Archives.

6.3. That the inspectors commended the archive service on its impressive engagement activity and strong understanding of the island communities it served.

6.4. That only eight other archive services in Scotland had achieved accredited status.

The Committee scrutinised:

6.5. The inspection letter and report in respect of the Orkney Archives, attached as Appendix 1 to the report by the Corporate Director for Education, Leisure and Housing, and obtained assurance.

7. Transforming Orkney's Cultural Services

Proposed Establishment of Short-Life Working Group

After consideration of a report by the Corporate Director for Education, Leisure and Housing, copies of which had been circulated, and after hearing a report by the Team Manager (Culture), the Committee:

Noted:

7.1. That, in March 2023, Bryn Jones Associates were appointed to carry out a full review of the Culture Service.

7.2. That the objective of the review was to evaluate the potential for reducing costs and increasing income generation across the whole Culture Service and to produce an options appraisal with strategic recommendations for a framework and a risk register to identify the most economically advantageous delivery model for Cultural Services that would inform planning for the next 10 years and beyond.

The Committee resolved to **recommend to the Council**:

7.3. That a short-life member/officer working group, comprising the undernoted core membership, be established to consider the findings of the consultant-led review into the provision of Council-funded cultural services in Orkney:

- Chair, Education, Leisure and Housing Committee – Councillor Gwenda M Shearer.
- Vice Chair, Education, Leisure and Housing Committee – Councillor Jean E Stevenson.

- 3 Additional Elected Members of Education, Leisure and Housing Committee:
  - Councillor Graham A Bevan.
  - Councillor Rachael A King.
  - Councillor John A R Scott.
- Corporate Director for Education, Leisure and Housing.
- Head of Community Learning, Leisure and Housing.
- Service Manager (Leisure and Culture).
- Team Leader (Culture).
- Arts Officer.
- 1 representative from the Collections Teams, Orkney Islands Council.
- 1 representative from the Visitor Services Team, Orkney Islands Council.
- 1 representative from the Pier Arts Centre (Culture Fund Key Client).
- 1 representative from the St Magnus International Festival (Culture Fund Key Client).
- 1 representative from the Orkney Folk Festival (Culture Fund Key Client).
- 1 representative from the Orkney Natural History Society Museum ("Stromness Museum", Culture Fund Key Client).
- 1 representative from Birsay Heritage Trust (Culture Fund Key Client).
- 1 representative from Museums Galleries Scotland.
- 1 representative from Creative Scotland.
- 1 representative from the Friends of St Magnus.

7.5. That the Corporate Director for Education, Leisure and Housing should submit a report, to the meeting of the Education, Leisure and Housing Committee to be held on 11 September 2024, advising of the outcome of the work of the short-life working group and presenting recommendations for consideration.

8. Review of Housing Revenue Account Business Plan

After consideration of a joint report by the Corporate Director for Education, Leisure and Housing and the Corporate Director for Enterprise and Sustainable Regeneration, copies of which had been circulated, and after hearing a report from the Head of Community Learning, Leisure and Housing, the Committee:

Noted:

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

8.2. 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.

8.3. The key assumptions and findings arising from the review of the Housing Revenue Account Business Plan by Indigo House Group, as outlined in section 5 of the joint report by the Corporate Director for Education, Leisure and Housing and the Corporate Director for Enterprise and Sustainable Regeneration, indicating that, overall, the Housing Revenue Account Business Plan was financially robust.

8.4. 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 the joint report by the Corporate Director for Education, Leisure and Housing and the Corporate Director for Enterprise and Sustainable Regeneration.

8.5. That, should the Housing Revenue Account Business Plan be approved, the recommendations contained therein, and outlined in section 6 of the joint report by the Corporate Director for Education, Leisure and Housing and the Corporate Director for Enterprise and Sustainable Regeneration, would require:

- To be financially viable through a combination of government grants, internal resources and/or affordable borrowing.
- To be subject to separate approval through the relevant governance processes, which may include reports to Committees, should any additional resources, including financial, be required.

The Committee resolved to **recommend to the Council**:

8.6. That the Housing Revenue Account Business Plan, prepared by Indigo House Group, attached as Appendix 2 to this Minute, be approved.

9. Council House Rents

After consideration of a report by the Corporate Director for Education, Leisure and Housing, copies of which had been circulated, and after hearing a report from the Service Manager (Housing, Homelessness and Schoolcare Accommodation), the Committee:

Noted:

9.1. That a consultation, undertaken in December 2023, in relation to the annual increase for Council house rent levels to take effect from 1 April 2024, proposed the following two options:

- A rental increase, in line with the Consumer Price Index (CPI), which as at September 2023 was 6.7%; or
- A rental increase of 7.2%, being CPI plus 0.5%.

9.2. The results of the consultation on the annual increase for Council house rent levels, as detailed in section 5 of the report by the Corporate Director for Education, Leisure and Housing.

The Committee resolved to **recommend to the Council**:

9.3. That, in recognition that the cost of living was continuing to have a significant impact on households and, therefore, there was a need to keep rents affordable, Council house rents should increase by 6.7% with effect from 1 April 2024.

10. Housing Revenue Account – Draft Budget

After consideration of a report by the Corporate Director for Education, Leisure and Housing, copies of which had been circulated, and after hearing a report from the Head of Community Learning, Leisure and Housing, the Committee:

Resolved to **recommend to the Council** that the draft revenue budget for the Housing Revenue Account for financial year 2024/25, as detailed in Appendix 1 to the report by the Corporate Director for Education, Leisure and Housing, be submitted to the Policy and Resources Committee for consideration through the budget setting process.

11. Conclusion of Meeting

At 12:11 the Chair declared the meeting concluded.

Signed: Gwenda M Shearer.

Orkney Islands Council

Education Leisure and Housing

Early Learning and Childcare Policy

Version Control

Document Reference.	**Revision.**	**Issue Date.**	**Reason for Issue.**	**Reviewer.**	**Sign.**
	00.	Date	New Policy.	Service Manager (Early Learning and Childcare)	
	01.	August 2014	Policy Update	Service Manager (Early Learning and Childcare)	
	02.	March 2017	Policy Update	Service Manager (Early Learning and Childcare)	
	03.	December 2020	Policy Update	Service Manager (Early Learning and Childcare)	
	04.	January 2022	Policy Update	Service Manager (Early Learning and Childcare)	
	05.	January 2024	Policy Update	Service Manager (Early Learning and Childcare)	

Contents

1. Introduction

1.1.

Early learning and childcare is defined by the Children and Young People (Scotland) Act 2014 as “a service consisting of education and care, of a kind that is suitable in the ordinary case for children who are under school age, regard being had to the importance of interactions and other experiences which support learning and development in a caring and nurturing setting.” This definition emphasises the requirement to provide education and care in a seamless, integrated and holistic way.

1.2.

Early learning and childcare is provided through a range of providers, for example, local authority nursery classes within schools, stand-alone local authority settings and other partners, including child minders. All of these types of provider will be referred to as settings within this policy.

1.3.

Early learning childcare nursery settings provide the statutory entitlement of 1140 hours. Smaller nursery settings provide 1140 within the school day and term. Some larger nursery settings (Glaitness, Papdale, St Andrews) offer extended days over 46 weeks per year, subject to demand. Dounby and Stromness offer extended days over 43 weeks per year, subject to demand. In the larger settings parents may be able to access more than the funded hours each year. A charge will be made for additional hours on top of the eligible entitlement. The Early Learning and Childcare Charging Policy is available from the Council Website.

1.4.

Partner providers may offer the funded hours in a more flexible way and parents will be able to access more than their funded hours if the setting has capacity.

1.5.

All providers of funded Early Learning and Childcare are required to meet the National Standard for Early Learning and Childcare. This means that settings must achieve grades of good or better when inspected by the Care Inspectorate. If a setting fails to achieve grades of good or better or otherwise not meet the National Standard, then they will be given an improvement period of six months to demonstrate that they have capacity to improve. This will be monitored by the early years team. A further six month period may be given if some but not sufficient improvement has been made. If there is insufficient improvement, or grades are repeatedly below good, then the setting will no longer be able to provide funded Early Learning and Childcare.

2. Funded partners

2.1.

The local authority will enter into partnership with Partner Providers if potential partners are registered with the Care Inspectorate and staff are SSSC (Scottish Social Services Council) registered where appropriate. Potential partners must also meet acceptable standards of provision when inspected by the Care Inspectorate (grades of good or better) and meet the National Standard, or when quality assured by local authority officers. If a setting is newly established and hasn't yet been inspected, they will be able to come into partnership to offer funded provision after appropriate quality assurance by the Early Years Service.

2.2.

All partner provider settings enter into a Service Level Agreement with the local authority, which sets out the conditions for the provision.

2.3.

If sufficient local authority settings and/or partners are offering funded provision in an area to meet demand, the Local Authority may take the decision not to take on further funded providers. This is to ensure best value and business sustainability for existing providers.

3. Eligibility for early learning and childcare

3.1.

The legislation for eligibility for early learning and childcare and primary schools is set out in the Education (Scotland) Act of 1980, the Children and Young People (Scotland) Act 2014 and the Provision of Early Learning and Childcare (Specified Children) (Scotland) Order 2014.

3.2.

In determining enrolment procedures for entry into primary school and eligibility for early learning and childcare, Orkney Islands Council will take account of legislation and Scottish Government arrangements.

3.3.

Children are eligible for early learning and childcare from the term after their third birthday (taking up their place in August, January or April) and remain eligible for early learning and childcare until they have reached eligibility for school (see section on Deferred Entry). Therefore:

- Children born between 1 March and 31 August can start in August following their third birthday.
- Children born between 1 September and 31 December can start in January following their third birthday.

- Children born between 1 January and the end of February can start in April (summer term) following their third birthday.

3.4.

Children who are Looked After, under a kinship care order or have a parent appointed guardian (at any time after their second birthday) are eligible for early learning and childcare and family support from their second birthday.

3.5.

Children whose parents or carers are in receipt of particular benefits, as defined in the Specified Children Order (see Appendix 1), will be entitled to 1140 hours of early learning and childcare from the term after their second birthday (taking up their place in August, January or April).

3.6.

Children of formally Care Experienced parents may access funded early learning and childcare from the term after their second birthday (Appendix 1).

3.7.

It is important to note that parents have no statutory obligation to access early learning and childcare and they may choose how many hours they would like their child to access. There is no requirement to use all hours offered.

3.8.

If parents are using less than the hours available and would like to request an increase in hours, then this should be made well before the end of the term to start the following term. This enables staffing to be put in place.

4. Deferred entry to school and eligibility for an additional year of early learning and childcare

4.1.

Generally, children in Scotland start school when they are aged between 4½ and 5½ years old. When they are eligible to start school depends on when their fifth birthday is. Children born between 1 March-and August will start school at the beginning of the Autumn term after they turn 5. Children born on or between the end of August and the last day in February can start school at the beginning of the Autumn term in the August before they turn 5.

4.2.

From August 2023, a change in legislation means that children who are not yet five years old on the day the new school term starts in August 2023 will have the right to start school. However, they can also defer entry to school until the following year and will automatically be able to access an additional year of funded early learning and childcare.

5. Registration Procedures for Enrolment

5.1.

Registration for early learning and childcare takes place in February each year.

5.2.

The local authority advertises registration by using the local press, posters/leaflets, social media, the Council website, and via other agencies.

5.3.

Information about all available funded providers (including childminders who are in partnership to offer funded Early Learning and Childcare), plus registration documentation will be available on the Council Website.

5.4.

Parents will be invited to seek further information, from the setting's early learning and childcare manager (which may be the head teacher) or the childminder.

5.5.

Registration will be carried out by completing an online registration form via the Council Website. The local authority will set a `registration week' during February during which most registration activity will take place and the online registrations will open that week from 9am on the Friday until 5pm on the following Friday. Registrations which are not straightforward (such as placing requests) will be referred to the Early Years Team.

5.6.

Late enrolments will be carried out by the Local Authority in consultation with the setting, for example, families who come to Orkney after the normal registration date. Late enrolment may reduce your chances of getting into your preferred setting.

6. Allocation of Places

6.1.

Ordinarily, all eligible children are able to have an early learning and childcare place in the school or setting in their local catchment area.

6.2.

Exceptions might be if no provision exists in the local area, if a setting is full, or if a child arrived late into an area and the setting has no additional capacity. In these circumstances, the child will be offered a place in an alternative setting.

6.3.

In the Papdale catchment area there are two settings, Papdale and the Strynd. Glaitness is also available as a choice to Papdale catchment parents. At registration, forms will be accepted on a first come first served basis. Parents will be asked to indicate their first choice, followed by their second and third in the event that their first choice is oversubscribed at the time of registering.

6.4.

Parents may make a placing request to elc@orkney.gov.uk if they would like their child to go to a setting outwith their catchment area. Placing requests may be granted provided there is capacity and there are no unsustainable financial implications/additional costs for the Local authority.

6.5.

Eligible children are defined in section 3. If local authority settings have limited capacity, places will be prioritised in the following way:

- Eligible child who lives in the catchment area.
- Eligible child outwith the catchment area who has additional support needs which are best met in the setting. This would include Looked After children.
- Placing or split placement request for an eligible child who lives outwith the catchment area who has a sibling already in that setting (in 2-year-old provision or nursery).
- Placing or split placement request for an eligible child who lives outwith the catchment area who has a sibling already in school (P1-7).
- Placing or split placement request for eligible child to meet childcare requirements for working parents, for example, the setting offers an all-year pattern.
- New placing requests for eligible child not covered above.

Local Authority settings must ensure that sufficient capacity is retained to accommodate new arrivals and that not all spare spaces are allocated to children outwith the catchment or to non-eligible children.

6.5.

Final decisions on split placements and placing requests will be made in early May. When deciding on split placements and placing requests, the Authority will consider projected uptake as well as individual setting contexts (including building layout, staffing and the needs of existing children) and any decision is at Local Authority discretion and is final. Parents can request that a decision be reconsidered, but there is no statutory Right of Appeal.

6.6.

Requests for split placements between more than one school or setting, including partner providers, will be considered provided that:

- the total number of hours across the two placements does not exceed 1140 hours
- no excessive or unaffordable costs are incurred to the local authority.

6.7.

Unless there are exceptional circumstances, requests to make or change the structure of a split placement that are made after staffing and budgets are set will only be considered if this does not incur an additional cost.

6.8.

Unless specifically stated at enrolment, once a child has been accepted for a three-year-old place at a setting, including placing and split placement requests, they will be entitled to finish their funded early learning and childcare experience at the same setting without making a new request or enrolment. This is to ensure continuity of provision.

In the Papdale catchment area if parents decide to change setting, then they need to fill in a change of setting form during Registration week. Places will be allocated on a first come, first served basis.

6.9.

In specific circumstances, for example, when considering a placing request at a setting that is predicted to become busier, a place may be given for one year only, rather than declining a request. This will be made clear to parents or carers when the place is offered.

6.10.

If a child is in two-year-old provision, their parents do not need to enrol them in 3-5 nursery provision, and their registration will be carried forward into 3-5 provision automatically. If parents decide to change setting, then they need to fill in a change of setting form.

6.11.

Where capacity allows within existing resources, settings may offer a child who turns three in September or October an Early Learning and Childcare place after the October holidays. This may be for a reduced number of hours until January, which is the start of their statutory entitlement. Children who are registered for that year and who do not turn three until November or after will start the term after their third birthday as per the statutory entitlement.

6.12.

Early entry places will not be offered to eligible two-year-olds from their second birthday, unless they are looked after.

6.13.

Places will not be offered to ineligible two year olds unless there are exceptional circumstances, for example, a child is at risk of being placed on the Child Protection

Register. Requests should be made to the Service Manager for Early Learning and Childcare.

6.14.

In island schools with only one child on roll in the nursery, additional non-eligible children (for example, two year olds) may be offered a free early learning and childcare place so that a social cohort is created.

6.15.

In Kirkwall, where more than one Local Authority setting may serve the same catchment area (Papdale and Strynd nursery settings), new enrolments for children living in the catchment will be accepted on a first come first served basis.

7. Induction to Settings

7.1.

Information about the setting will normally be included in the school/setting handbook, website or information leaflets. Informal liaison with parents and carers prior to children starting early learning and childcare is encouraged.

7.2.

Settings will use a range of approaches to support transition between home and school/nursery/other settings. This may include visits or sessions to which children and parents can be invited, visits to toddler groups by early years practitioners and stay and play events. Families may also be offered a home visit. Parents are welcomed in nurseries and may stay for periods of time whilst settling their child.

7.3.

Appropriate and timely information about children with additional support needs will be given to the setting by the Named Person or Lead Professional where appropriate.

7.4.

Attendance can be tailored to suit the child and family, e.g gradually increasing the number of sessions/length of sessions according to the wishes of the parents.

7.5.

No child will be given shorter or fewer sessions due to developmental needs or differences, for example toilet awareness issues.

8. Family Engagement

8.1.

Engaging with, learning from and working with parents, carers and families is a key part of the role of managers and practitioners in early learning and childcare settings.

8.2.

Settings will create a range of opportunities to engage families and other partners, for example, stay and play sessions, social experiences and working groups.

8.3.

Settings will support parents and carers to engage with their children’s learning and will provide opportunities for practitioners, parents and carers to share how very young children learn.

8.4.

Intergenerational working, including opportunities for children to engage with older people, will be offered where possible, as part of children’s early years experience.

9. Charging for Additional Services and Hours

9.1.

All schools and settings will offer children a healthy snack based on the current nutritional guidance, Setting the Table (Nutritional guidance and food standards for early years childcare providers in Scotland, NHS Health Scotland 2014). One healthy snack per child per day is funded by the Scottish Government. This consists of milk and a portion of fruit or vegetables. A small contribution may be requested to cover the cost of any additional snacks each day and parents may choose to contribute this daily, weekly or termly.

9.2.

In the larger settings which operate extended days, parents may be able to access more than the funded hours each year. A charge may be made for additional hours on top of the eligible entitlement. The Early Learning and Childcare Charging Policy is available from the Council Website.

9.3.

No charge will be made by any setting (Local Authority or partner funded provider) for the following:

- Funded early learning and childcare hours that form part of a child’s entitlement.
- Top up payments for funded hours other than in those contributions mentioned in 9.1.
- For children using a split placement, charges for unfilled hours at one setting when the child is using funded early learning and childcare at another setting.

10. Capacity of Settings

10.1.

The capacity of each setting is agreed with the Care Inspectorate taking into account National Care Standards, including factors such as the building/infrastructure/ floor area, number of and access to toilets, and access to play areas etc.

10.2.

The Care Inspectorate Registration Certificate specifies the maximum number of children and the age groups permitted at any time in each setting.

10.3.

Local Authority settings are staffed for the number of eligible children registered each year. The staffing capacity of the setting may be less than the registered number

10.4.

At registration time, where possible, one or two places should be kept for late enrolments in catchment areas or for requests by other agencies.

11. Children's Workforce and Staffing in Local Authority Settings

11.1.

Settings vary in size across Orkney from 1 to 90 children at any one time.

11.2.

The minimum staffing ratio specified by the National Care Standards for nurseries is

- 1:10 for children aged 3 years and over if they stay for less than 4 hours.
- 1:8 for children aged 3 and over who stay for more than 4 hours.
- 1:5 for children aged 2-3 years.

11.3.

Each setting will have a Registered Manager, which will be the head teacher or the early learning and childcare manager.

11.4.

It is a requirement that all staff will be registered to either the GTCS (General Teaching Council), or the SSSC (Scottish Social Services Council).

11.5.

Any member of staff who fails to register within the specified period or maintain their registration will no longer be able to attend for work at the setting.

11.6.

Unqualified practitioners may be appointed to practitioner posts. Early years practitioners or support workers are appointed on the condition that they will complete a SSSC recognised qualification for practitioners in day care of children settings within three years of taking up post. Senior practitioners are appointed on the condition that they complete an HND in Childhood Practice or equivalent, and managers are appointed on the condition that they complete a BA in Childhood Practice or other SSSC recognised qualification for managers in day care of children settings within five years of taking up post.

11.7.

All staff in Local Authority settings who require a qualification for their job role will have the course fees funded by the Local Authority. Attendance at SVQ training sessions will be paid. In addition, traveling expenses for isles staff will be funded.

11.8.

Settings with consistently less than 24 children usually be staffed by an Early Years Lead Practitioner. Additional Early Years Practitioners will be appointed to work alongside the Lead Practitioner to meet ratio requirements and the needs of the children.

11.9.

Settings with consistently more than 24 children will usually be staffed by a registered manager, a senior practitioner and a number of Early Years Practitioners to meet the ratio requirement and the needs of the children.

11.10.

Early Years Support Workers may be appointed to work alongside the early years team in settings to enhance the team capacity where required.

12. High Quality Environments

12.1.

All settings should provide a rich, stimulating, age appropriate learning environment for young children. Settings should be warm, welcoming and nurturing, staffed by practitioners who understand that relational ways of working are key to children’s wellbeing.

12.2.

Children should have daily access to extended periods of time in a naturalistic outside environment. Where a setting has more than one member of staff, this should be offered as a free-flow experience.

13. Learning Through Play

13.1.

Practitioners should plan high quality first hand play based experiences that are responsive to children's needs and interests.

13.2.

Learning should be documented in individual folders, plus, for example, group floorbooks, planning walls or documentation, and wall displays.

13.3.

Children should be engaged in planning and leading their own learning and practitioners should use innovative and age appropriate ways to support children to do this.

14. Management and Quality Assurance/Improvement

14.1.

The local authority have the responsibility to oversee the development, delivery and quality of early learning and childcare in all settings that are offering funded early learning and childcare.

14.2.

Within a Local Authority school-based setting, the overall management rests with the head teacher or early learning and childcare manager, who will ensure that the provision is a fully integrated part of the whole school. In standalone and partner provider nurseries, there will be a registered manager who is responsible for the management of the setting.

14.3.

School and setting managers will ensure that all practitioner registrations are completed and kept up to date with the appropriate national bodies i.e. Care Inspectorate, GTCS, SSSC.

14.4.

At least 12 hours of professional learning and development and CPD opportunities will be made available to all early learning and childcare practitioners each year. This could include collaborative training with practitioners in other agencies as well as practitioners and childminders across other aspects of early learning and childcare.

14.5.

The registered manager will ensure that self-evaluation is consistently carried out by the setting and helps to inform provision, staff development needs, development priorities to be included in the school/setting improvement plan, and the standards and quality report.

14.6.

Quality Assurance processes will be carried out at:-

- setting/school level (using current early learning and childcare quality frameworks).
- local authority level (quality assurance and improvement processes).
- national level (Care Inspectorate/HMIe inspection processes).

14.7.

Following an HMIe or Care Inspectorate inspection, the local authority will support the school/setting in creating and implementing an Action Plan if appropriate.

14.8.

If a partner provider has not met the National Standard and has failed to improve within 12 months despite input from the Local Authority, then the Local Authority will no longer be able to use the setting as a partner provider.

15. Attendance

15.1.

A register of children will be kept for school/setting records and for census purposes. Daily attendance will be kept on a register.

15.2.

At registration, parents request the number of sessions/hours that they would like each term. This may be varied (increased and decreased) in discussion with the setting.

15.3.

Early learning and childcare is non-statutory, however, parents/carers should let the setting know if their child is not going to attend, before their child is due to attend that morning/afternoon. Failure to arrive as expected will be followed up promptly and appropriately. This would include phoning parents/carers or might involve contacting the Health Visitor.

15.4.

If a child repeatedly does not attend as planned, the manager will arrange a meeting to discuss this with the parent/carer. This is to ensure that the child is safe, but also to plan ways to support the family, for example, stay and play sessions, additional home visits or changing the number of sessions or session timings.

16. Food

16.1.

All children who stay for a morning or afternoon session are entitled to a lunch, and one free healthy snack. If children stay all day and have a second snack, parents are invited to pay a contribution towards this.

16.2.

Any food served will comply with current nutritional guidance for children aged 2 to 5 years.

16.3.

Parents may choose to bring a packed lunch for their child. In these circumstances, each setting should support parents to provide a healthy packed lunch in line with current nutritional guidance.

17. Safety and Managing Risk

17.1.

The Authority and Care Inspectorate’s guidelines on safety and security in settings must be strictly followed.

17.2.

Settings will use risk benefit assessments to manage risk and to support children to develop their skills in managing risk.

17.3.

Settings must ensure that children are appropriately supervised at all times. Staff should be particularly vigilant at arrival and departure times.

17.4.

No child should be allowed to leave the premises with an unknown or unauthorised person.

17.5.

Managers are responsible for ensuring that the setting is safe and secure. This includes ensuring that boundaries and any doors or gates are secure and systems for managing these are in place.

17.6.

Any adults (including frequent volunteers) who have regular access to children in the setting will be required to join the PVG scheme. This would not apply to parents or carers sharing a session, who will be supervised by members of staff.

17.7.

Should an incident or accident occur in a setting, it should be recorded using the Local Authority or setting procedures (if not a Local Authority setting). Depending on the nature of the incident or accident, the Local Authority should be informed, and the Care Inspectorate should be notified (see useful links).

18. Access to Provision

18.1.

Transport is not provided by the Local Authority for children below school age and parents are responsible for making their own arrangements.

18.2.

Some funding may be available through the Sure Start Fund, for instance where a child's attendance at a setting is curtailed or precluded due to real difficulties being experienced by the family. Application forms can be requested by contacting elc@orkney.gov.uk

18.3.

For children who may be unable to access provision for extended periods, for example due to illness, some support for the child and communication with the family may be provided from the school/setting/ or early years team.

19. Supporting alternative providers

19.1.

In islands with no existing nursery provision and with no registered childminders, the Local Authority will support a new childminder to set up a service to provide funded Early Learning and Childcare to eligible children on the island.

19.2.

Support will include a set up grant, in addition to the Business Gateway Grant, advice and on-going practice support.

19.3.

To ensure that it is viable for the childminder to offer funded hours, they will be paid an enhanced rate for up to 1140 hours per year (the funded hours). The enhanced rate will be linked to the hourly rate set out by the Scottish Living Wage (Real Living Wage Scotland). If other non-eligible children attend the childminder, then the rate paid will be adjusted accordingly.

20. Complaints

All settings will ensure that complaints procedures are clearly displayed on notice boards and in setting information handbooks or leaflets. In addition to making a complaint to the setting or Local Authority, parent and carers should be notified of their right to make a complaint directly to the Care Inspectorate.

Useful links

Early Learning and Childcare information on the Council Website:
http://www.orkney.gov.uk/Service-Directory/P/Early-Learning-and-Childcare.htm

Charging policy (in related downloads on link below):
https://www.orkney.gov.uk/Service-Directory/P/Early-Learning-and-Childcare.htm

Care Inspectorate notifications
https://www.careinspectorate.com/index.php/notifications

Appendix 1: Eligibility for Two-Year-Old provision

Qualifying benefit/situation
Universal credit (and your monthly earned income is £726 or less).
Income Support.
Income Based Jobseekers Allowance.
Employment & Support Allowance (Income Related).
Child Tax Credit, but not Working Tax Credit (earnings are £18,725 or less).
Child Tax Credit and Working Tax Credit (earnings are £8,717 or less).
Age 16-18 and claiming any of these benefits in your own right.
Incapacity Benefit or Severe Disablement Allowance.
Pension Credit.
Asylum Seeker receiving support under Part VI of Immigration & Asylum Act 1999.
Children who are Looked After, under a kinship care order or have a parent appointed guardian (at any time after their second birthday).
Children of Care Experienced parents who have been in care under a UK local authority or in a formal care arrangement.

Housing Revenue Account 2024-25

ORKNEY ISLANDS COUNCIL

Final Report

16th January 2024

indigohouse

indigohouse

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Contents

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 repot.

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 recommend**ations 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.

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 statue 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 expenditure[1]. 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 HRAprovided 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.

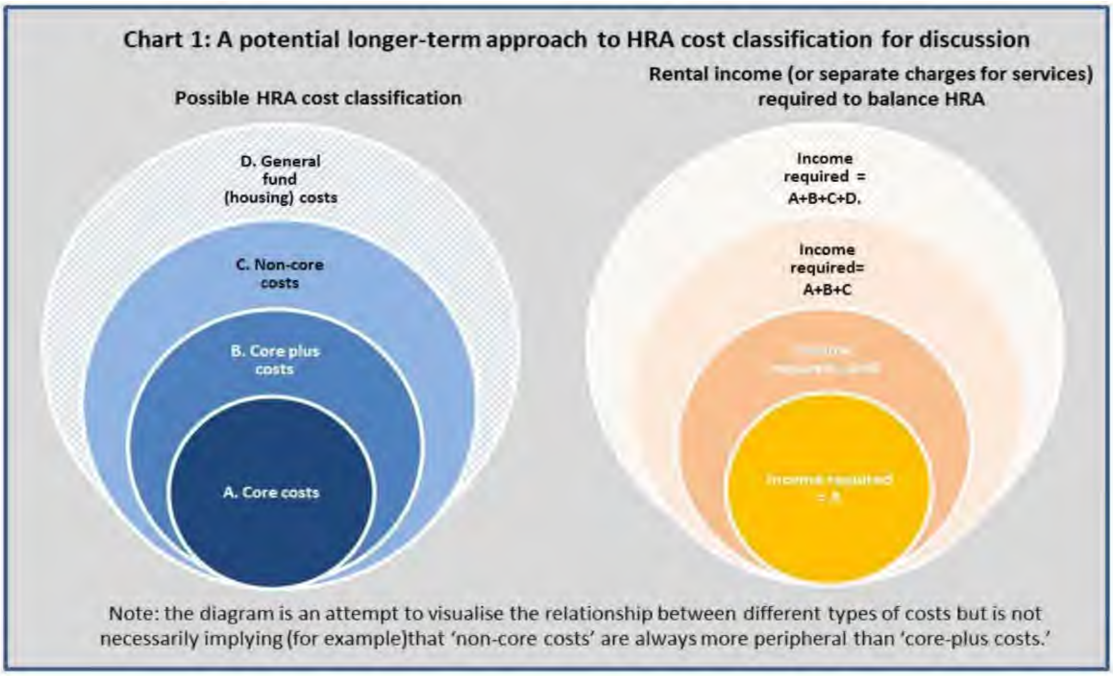
- **Cost Classification 2** - 'Core plus' services/costs – where it is difficult to gain a consensus around a strict definition of 'core' HRA costs, it may be necessary to itemise a range of services where there is a general expectation that council landlords will provide a service and where a proportion 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 deminimus 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 £1,0111 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 EEESSH.
- 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.

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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 sated, 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 indictors 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 Autum 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
		£ 162,000.00	£ 69,840.00			£ 1,011,200.00				£ 1,243,040.00

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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 2024/25	2 2025/26	3 2026/27	4 2027/28	5 2028/29	6 - 10 2029/34	11 - 15 2034/39	16 - 20 2039/44	21 - 25 2044/49	26 - 30 2049/54
OPERATING ACTIVITY										
Income										
Rents	£4,652	£4,923	£5,148	£5,356	£5,572	£30,891	£35,282	£38,954	£42,563	£47,436
Service & Other Charges	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Voids & Bad Debts	-£153	-£141	-£135	-£121	-£112	-£569	-£678	-£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	£1,055	£5,686	£6,353	£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	£1,273	£1,958	£2,162
Total Expenditure (Revenue)	**£3,381**	**£3,261**	**£3,271**	**£2,717**	**£3,095**	**£16,083**	**£28,228**	**£27,325**	**£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	£883	£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**

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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

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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 - EEESSH	£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**