



Housing Revenue Account (HRA)

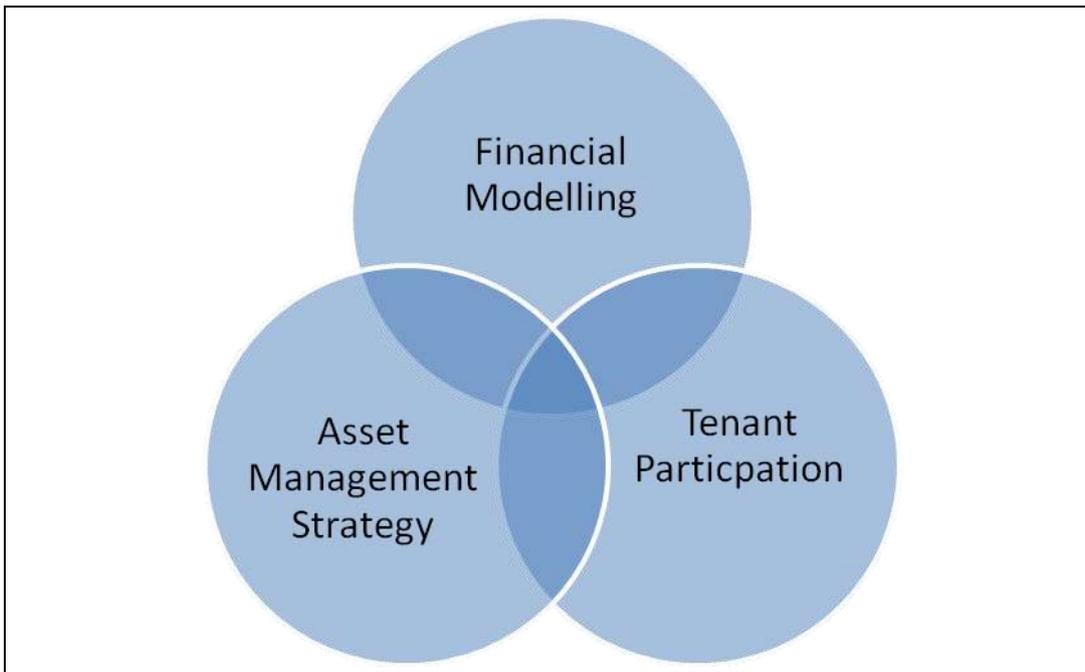
Business Plan 2017

Executive Manager - Housing

1.0 Introduction

1.1 Development of the Business Plan

- 1.2 The Housing Revenue Account (HRA) Business Plan explains where we want to be as a Council housing service and our proposals for getting there. Shetland Islands Council's HRA has for many years been constrained by a burden of historic housing debt. Following successful negotiations with both UK and Scottish Governments in 2013, a debt resolution was agreed that reduced the debt burden in line with the Scottish average. This makes it all the more important that we take time to produce a business plan for the future that ensures the ongoing sustainability of the account and provides some certainty to our tenants and customers about future service levels.
- 1.3 The purpose of the HRA Business Plan is to set out our vision, core objectives and key actions so that they are clear to our tenants and customers, our staff, the general public, our colleagues and partner agencies, and to external scrutiny bodies. The Business Plan is designed to set out the strategic goals of the Council's Housing Service and measure progress toward achieving these goals. The Business Plan provides a realistic appraisal of how these strategic goals will be achieved within the limitations of available funding and the likely economic climate.
- 1.4 The Business Plan expresses the values which influence all that we do and how we seek to improve. It also addresses how we will change and respond to the challenges ahead. This will involve a strong focus on more efficient and effective public services. At the same time, we want to ensure that our customers are satisfied with the services we provide and have the opportunity to build on the Tenant Participation structures that we have in place. Tenants enjoy a significant level of statutory input into the service and in order to ensure that, where possible, their customer experience is enhanced, it is vital to recognise those structures and to continuously review and improve the mechanisms available to our tenants to be directly involved.
- 1.5 The Business Plan is intended to be easily accessible to stakeholders. It provides information to demonstrate that the Council has a clear picture of its strategic direction and the associated financial position of the service in order to deliver this.
- 1.6 The Business Planning process has involved several work-streams culminating in the final document, this is illustrated in the diagram on page 3, to show the inter-dependence of each area:



1.7 The overlapping sections of the graph can be further detailed by the following list of key areas which need to be considered and addressed through the HRA Business Plan and budget process.

- Rent Levels and Affordability
- Quality Standards e.g. Energy Efficiency Standard for Social Housing (EESH)
- Levels of Service Provision
- Capacity for investment
- Inflation
- Capacity for new build development
- Available Balances
- Public Sector Borrowing
- Tenants views

1.8 Our starting point needed to be extensive financial modelling carried out to establish our base case financial position. The financial sustainability of the account had to be tested and we also needed to be clear on what capacity there was on the HRA for future investment plans. The financial model enables us to look at short, medium and long term projections of the HRA and to test a number of scenarios. We also carried out sensitivity analysis of the impact of changes to inflation and interest rates. While this produces a 30 year long term picture, for planning purposes we are focussing on a five year window with ongoing annual review.

1.9 This document uses the Scottish Housing Regulator's best practice framework for housing business planning¹ as well as the the Scottish Government's guidance on the

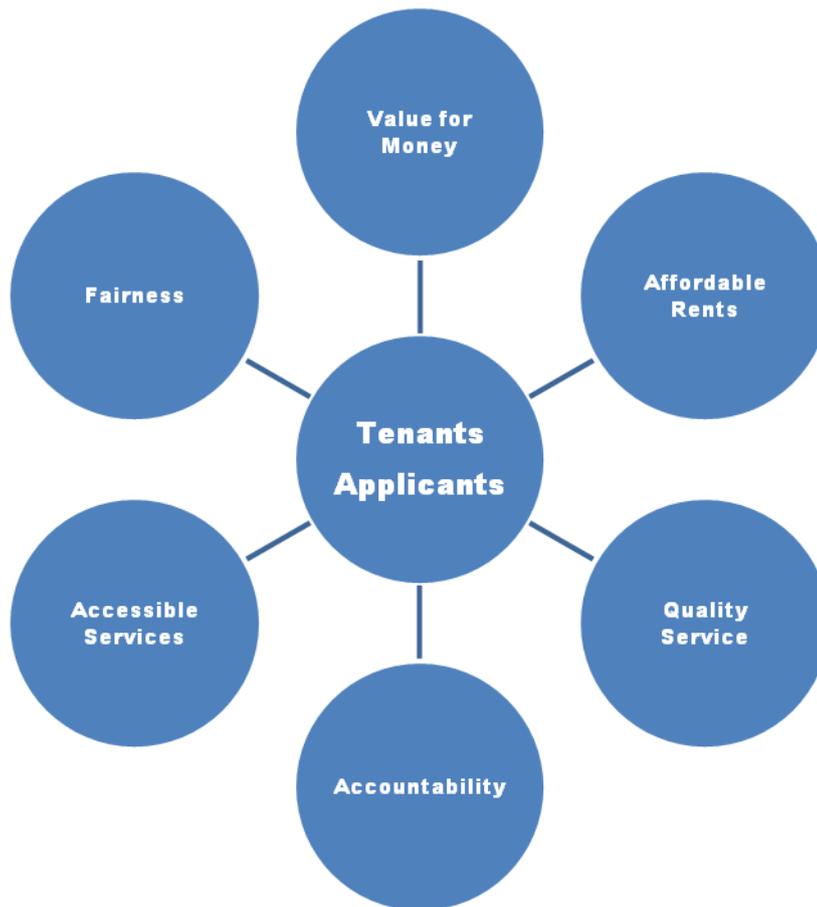
¹<https://www.scottishhousingregulator.gov.uk/sites/default/files/publications/Business%20Planning%20RP%20-%20FINAL%20-%20Version%205%20-%202014%20December%202015.pdf>

operation of HRAs² published in 2014. This ensures that the Council follows the prevailing guidelines in creating its HRA Business Plan for the next 30 years.

- 1.10 External support to the process came from Robert McDowall Consultancy, The Tenant Participation Advisory Service – Scotland (TPAS) and Michael Dyson Associates. Internally, the financial modelling was carried out by the Management Accountancy team in Finance Services.
- 1.11 The Council has not previously had an Asset Management Strategy for its housing stock so the opportunity to integrate that into the Business Plan was timely and necessary. Whilst the Council had a volume of stock information this needed to be verified by way of a sample stock condition survey to provide the base starting point for developing the strategy.
- 1.12 Tenants are at the heart of everything the housing service does and are entitled by law to be involved in the decisions that affect their homes. A revised Tenant Participation Strategy was produced and all tenants were consulted on the document. A refreshed action plan will be produced during 2017.

² <http://www.gov.scot/Resource/0044/00445684.pdf>

2.0 Business Plan Objectives



- 2.1 The objectives of the HRA Business Plan are to demonstrate that we can operate a sustainable HRA into the future that allows for fair, accessible and good quality services to be delivered to our tenants and applicants at an affordable cost, demonstrating good value for money. The Housing Service must be accountable to its tenants and also to elected members, the Scottish Government, the Scottish Housing Regulator and service delivery partners.
- 2.2 The Business Plan aims to align corporate and service strategic documents to demonstrate how the service will operate into the future and to continue to provide services that meet the core objectives set out in the diagram above.

3.0 Strategic Links

3.1 Links to other Strategies

3.1.2 The Housing Service fits into the Council's strategic and performance management framework as detailed below.

3.2 Community Plan & Local Outcomes Improvement Plan (LOIP)

3.2.1 The Community Planning Partnership (Shetland Partnership) involves key agencies from the public, private and voluntary sector working together with communities to develop a community plan that aims to make Shetland the best place to live and work by creating communities that meet the national targets of: Wealthier & Fairer; Learning & Supportive; Healthy & Caring; Safe; Vibrant & Sustainable.

3.2.2 These are delivered through the Local Outcome Improvement Plan (LOIP) agreed in June 2016. Outcome D of the plan focuses on sustainable economic growth and ensuring that all people have the chance to be part of island life. Within the plan is a priority action of attracting more people to Shetland to live, work, study and invest. Housing has a pivotal role in contributing to these outcomes and this is reflected through the Local Housing Strategy and its delivery.

3.3 Council Corporate Plan

3.3.1 The Council sets out its corporate vision in its Corporate Plan:

By the end of this Plan (2020), we want to be known as an excellent organisation that works with our partners to deliver sustainable services for the people of Shetland.

3.3.2 Housing is high on the agenda of the key priorities set out in the Corporate Plan, with **Increased the supply of affordable housing in Shetland** featuring as one of the listed five key priorities for the Council.

3.4 Local Housing Strategy

3.4.1 The Housing Service operates within a strategic framework which links to local and national policies. These are contained in the Local Housing Strategy³. and underpinned by the evidence base presented in the Housing Need and Demand Assessment which identifies housing supply and demand, trends, affordability level and imbalances in housing stock and tenures based on a range of robust and credible datasets and information⁴. The five key themes of the Local Housing Strategy are:

³ http://www.shetland.gov.uk/housing/policies_housing_strategy.asp

⁴ http://www.shetland.gov.uk/housing/policies_housing_need.asp

- Future housing supply
- Homelessness
- Housing support/ housing needs of an ageing population
- Fuel Poverty
- Private Sector

3.5 Directorate Plan

- 3.5.1 The Housing Service is part of the Development Directorate. The Development Directorate encompasses Housing, Planning, Economic Development, Transport Planning, Community Planning and Development and Shetland College.
- 3.5.2 There are clear strategic connections and synergies between the services that comprise the Development Directorate. These are brought together in an annual Directorate Plan which identifies the key drivers and links between the services and the delivery of the Corporate Plan priorities.

3.6 Strategic Housing Investment Plan (SHIP)

- 3.6.1 The Strategic Housing Investment Plan is the delivery plan for the Local Housing Strategy and specifically details the capital investment projects to meet the outcomes identified. The SHIP covers a five year time period and is reported every two years. SHIP's are submitted to Scottish Government for approval and forms the basis of the funding allocation from the Governments Affordable Housing Investment programme.

4.0 Asset Management

4.1 The Council's Housing Stock

- 4.1.1 An integral part of the business planning process has been the detailed work that has gone into the Asset Management Strategy.

The Council supplemented its own stock information with an externally commissioned survey of 20% of the stock. The findings of the survey conclude that the stock is generally in good condition and that good investment had been made in recent years. However, it was noted that a number of properties have components which are approaching the end of their useable life. This is to be expected given the age profile of our housing stock. Key areas for future investment are energy efficiency, replacement heating systems, kitchen replacements and roof covering replacement.

- 4.1.2 Some additional structural concerns in particular stock design or materials have been identified and consultant engineers commissioned to provide detailed survey information on these to be prioritised for remedial works.
- 4.1.3 The purpose of the housing stock asset management strategy is to ensure that we maintain our housing stock to current standards and that we procure component replacement in the most cost effective way. Our investment

programmewill be developed around planned repairs to housing stock, thus reducing the expenditure on reactive repairs. As part of the Asset Management Strategy we will also develop standardised specification documents and will ensure that replacement components are quality products which are suitable for the Shetland environment and with consideration to the lifetime of the asset, represent good value for money. Tenants will be consulted and involved in decisions on the introduction of specification standards.

4.2 Stock Profile

4.2.1 As at 31 March 2016, the Council's housing stock on the HRA numbered 1725 properties throughout Shetland. Details of the housing stock are set out in the Asset Management Strategy. In summary, just over half (52%) of the stock is located in Lerwick with the remainder dispersed throughout Shetland. The majority of the housing stock was built after 1965 and are mainly two and three bedroom properties.

5.0 How We Work

5.1 The Housing Service is organised into the following sections:

- Housing Management & Homelessness
- Asset Management
- Repairs Service
- Housing Support
- Research & Information
- Business Support

With around 87 FTE staff, the Housing Service is managed by an Executive Manager and three Team Leaders (Asset Management, Housing Management and Housing Support) covering both the HRA and General Fund activities of the Housing Service.

5.2 An annual training programme aims to balance mandatory and developmental training with the aim of providing a professional, customer focused service. Use of career-grades has given staff opportunities to 'grow' into professional roles with formal qualification and supported work experience. The Service uses the Shelter Training package to provide recognised national standard training in Housing Advice, Information and Law for all staff. Regular one-to-one support and formal annual employee review meetings are carried out within all teams.

5.3 Team structure service reviews have been recently carried out in Housing Support and Housing Management to ensure that the service meets current needs and is fit for purpose.

Within the Development Directorate reviews of admin/business support and research and information teams has led to the development of virtual teams and more joined-up working across the directorate.

5.4 Identified areas for team structure service review in 2017/18 are: Asset Management and Housing Repairs.

5.5 All our policies are compiled into an accessible Quality Manual and are regularly reviewed and updated.

5.6 Recent achievements within the Housing service include:

- Achieving resolution of the Housing Debt
- Implementing a new integrated housing management system
- Achieving an excellent Care Inspectorate report for Housing Support Service
- Redesigning the Housing Support Service
- Continuing to work in partnership with Hjalmland Housing Association on the delivery of new housing supply
- Removing the Trading Account status from the DLO to enable an integrated housing repairs service to be developed
- Focusing on prevention of homelessness to reduce numbers of homeless presentations

5.7 Service Strengths

5.7.1 Through various methods, such as inspection, benchmarking and national reporting, we have been recognised as having significant strengths in the following areas:

- Commitment to Tenant Participation
- Partnership working being at the core of our strategic planning and service delivery
- Focus on early intervention and offering a housing options approach
- High levels of satisfaction with repairs and maintenance service
- Dedicated and professional staff

5.8 Areas for Improvement and Service Priorities

5.8.1 We are currently reviewing and evaluating a number of key areas with a view to improving service planning, provision and delivery:

- Energy efficiency needs of our housing stock
- Rent levels and affordability
- The workforce requirements of the repairs service
- Use of technology and mobile working options
- Formalised benchmarking
- Updating of our Tenant Participation action plan

5.9 Partnership Working

5.9.1 The Housing Service is committed to partnership working to deliver on its aims and objectives and to support a range of services and projects with links to Housing. There are multiple partnerships in place at both strategic and operational levels. Some examples of partnership/multi-agency working include Anti-Social Behaviour; Corporate Parenting; Domestic Abuse Partnership; Welfare Reform; Fuel Poverty etc.

5.9.2 We also consider our tenants and applicants to be partners in our work and have produced a refreshed Tenant Participation Strategy as part of the business plan process. This has been consulted on with all tenants and has been positively received. The Tenant Participation Strategy sets out our partnership commitment to our tenants. A new action plan for greater tenant involvement in line with the Scottish Housing Regulator's national frameworks will be developed in 2017.

5.10 Common Housing Register

5.10.1 Shetland Islands Council and Hjaltland Housing Association operate a shared housing waiting list. In practice this means that applicants only need to complete one form to apply for social housing in Shetland. This provides applicants with a more efficient housing application process. Regular reviews are carried out and tenants' views are sought on the process to provide feedback and allow continuous improvement.

6.0 Quality of Service – Accountability and Value for Money

6.1 The Housing Service must be accountable to its tenants and also to elected members, the Scottish Government, the Scottish Housing Regulator and service delivery partners.

In 2014, the Scottish Housing Regulator introduced new reporting requirements through the Scottish Social Housing Charter. All social landlords must produce an annual return on the charter (ARC) reporting against a range of key performance measures devised in consultation with tenants nationally. Also locally landlords must produce a report card on annual performance for distribution to all tenants.

6.2 The Scottish Housing Regulator has also produced a comparison tool using the charter returns from all landlords in Scotland so that benchmarking and peer group comparisons can be done.

In developing our tenant scrutiny further, we will look to expand our internal audit process to widen involvement of tenants in reviewing our policies and procedures, as set out in the Tenant Participation Strategy.

7.0 Scottish Housing Regulator

7.1 The Scottish Housing Regulator (SHR)⁵ is an independent external body that assesses the effectiveness of housing landlords across Scotland, both local authority and housing association landlords. The SHR introduced a uniform set of performance indicators for all landlords to report on annually, together with a requirement to publish performance data annually in a report card format for all tenants, known as the Annual Return on the Charter (ARC). The ARC focuses on enabling tenants to hold landlords accountable for performance in achieving the outcomes that matter to them. This data also provides accessible and valuable benchmarking information across all social housing landlords in Scotland

⁵ <https://www.scottishhousingregulator.gov.uk/>

8.0 Tenant Participation and Consultation

- 8.1 The Council has a long history of involvement in tenant participation and consultation. The establishment of an independent Tenant Participation Worker through the Shetland Tenants Forum was hailed as a model of good practice when it was established. The refreshed Tenant Participation Strategy which has been developed alongside this Business Plan shows the evolution of tenant participation. Tenant participation was given statutory status in the Housing (Scotland) Act 2001.
- 8.2 Traditionally tenant participation has focused on tenant groups, however changes brought about by the Scottish Housing Regulator make it clear that wider tenant involvement is needed. Not all tenants want to be part of a formal group but do want to have a say in how their landlord provides services to them. The Council recognises that there are different ways for tenants to be involved and through our refreshed Tenant Participation Strategy, we will seek to develop a range of options for tenants throughout 2017 and beyond. This will include providing views, opinions and feedback on services through surveys, focus groups, estate inspections, tenant led audits etc.

9.0 Tenant Satisfaction

- 9.1 From the Scottish Housing Charter survey carried out in 2014, 77.9% of tenants reported that they were satisfied with the overall service provided. From the Charter survey sample, 84.7% of tenants reported that they were satisfied with the repair and maintenance service they had had. From our own feedback surveys which we carry out for each repair we recorded higher levels of satisfaction, with 94% of responses indicating that they were satisfied with the service received. However from the survey tenants satisfaction with their opportunities to participate in landlord's decision making and who felt that their landlord was good at keeping them informed about their services and outcomes was lower than average at 50% and 67.4% respectively.

10.0 Performance Management

- 10.1 It is important to have a performance monitoring framework in place that allows us to:
- Clearly demonstrate what our customers can expect from us;
 - Assess systematically whether we are meeting the standards and targets we have set;
 - Ensure that performance is reviewed and actions to correct or improve performance can be identified and implemented;
 - Make clear to staff what the standards of service that they need to work to are.
- 10.2 We measure our performance through the use of performance indicators developed from national and local sources. This ensures consistency and allows management to focus on our key priorities. Our integrated housing management system allows managers to access user-defined monitoring reports in real time. Areas of poor performance are investigated quickly and appropriately by managers. Regular reports to Committee ensure that elected members are apprised of the service performance on a regular, quarterly basis.

10.3 Annual reporting on the Housing Charter to both the SHR and to tenants through the Report Card ensures that our tenants and external scrutiny body are fully informed of our performance. Through our refreshed Tenant Participation Strategy we plan to extend tenant involvement in shaping policy through a range of focus groups and tenant audit programmes.

11.0 Benchmarking

11.1 Benchmarking, or comparing performance with others, can be a useful way of checking performance levels. The Scottish Housing Regulator has published all the Charter information returns in a way that allows comparisons with other landlords. This tool is available online and can be accessed by anyone. It is a useful way for tenants to do their own comparisons. As with all high level statistical reporting, further analysis and understanding of context is needed to properly understand where there are differences. Formal benchmarking and performance is an area that we have identified to be developed further. There are national membership organisations who are providing this service and we plan to investigate what services they are able to offer.

An initial comparison carried out using the SHR reporting tool with the published 2015/16 information to compare Shetland Islands Council with our closest comparators across a range of the reported indicators shows the following:

2015/16		SIC	OIC	HC	HHA	HHP	SHR Ave.
Homes & Rents	Stock Number	1741	952	13899	630	2191	4418
	Ave rent 1 bed home	£57.82	£65.06	£61.11	£75.60	£65.41	£62.76
	Ave rent 3 bed home	£84.53	£77.07	£74.95	£87.27	£76.63	£75.66
Tenant Satisfaction	Overall % tenants satisfied with service	74.8	87.6	74.0	90.3	83.0	83.7
Quality & Maintenance	Ave time taken to carry out emergency repair (hours)	5.0	6.9	7.9	5.5	9.4	8.1
	% repairs carried out 'right first time'	83.7	93.7	95.3	94.8	88.3	94.5
	% tenants satisfied with repair	82.7	84.3	83.3	89.2	83.6	85.1
Neighbourhood	Cases of anti-social behaviour per 100 homes	0.6	4.0	15.1	11.6	1.5	12.7
	% of anti social behaviour	70	81.6	81.0	83.6	81.2	81.1

Appendix A (DV-16-17)

	cases resolved within local targets						
Value for Money	% rent not collected through void/empty homes	1.3	1.5	1.0	0.1	0.7	1.0
	Average time taken in days to re-let homes	64.2	40.6	47.1	6.5	21.1	41.5

Key:	SIC – Shetland Islands Council OIC – Orkney Islands Council HC – Highland Council HHA – Hjaltland Housing Association HHP – Hebridean Housing Partnership SHR Ave – Scottish Average as per SHR charter report
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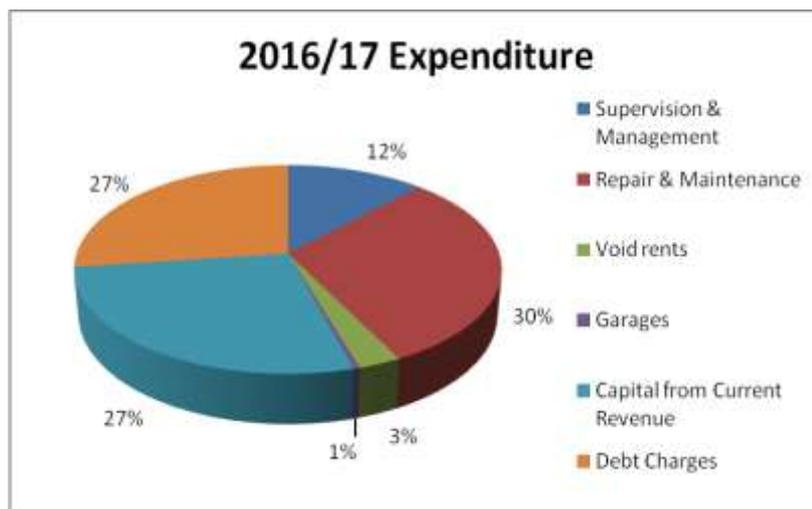
12.0 Financial Plan

12.1 Housing Revenue Account

12.1.1 The HRA is a statutory requirement for all local authorities that provide a housing landlord service. It is a ring-fenced account with income mainly being generated from tenants' rents. Expenditure is incurred through the management and maintenance of, as well as investment in, the housing stock to ensure that tenants' homes are safe, secure, warm free from defects and meet current standards.

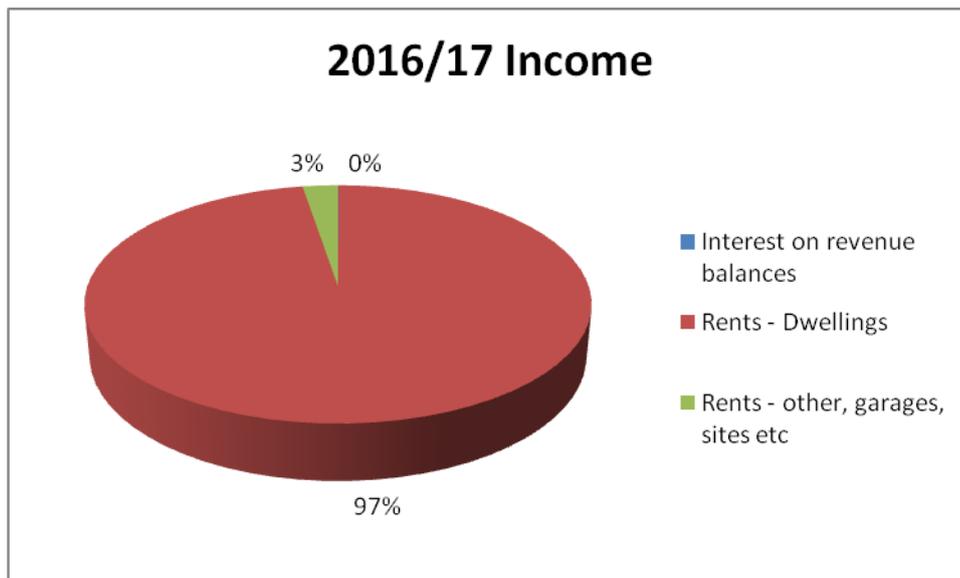
The HRA is divided into Capital and Revenue items. Expenditure on Capital items is where money is invested in major works (such as external refurbishment, replacement roofs, full house heating and insulation upgrades) to improve the physical quality of the houses.

Revenue income is predominantly the rent that tenants pay to the Council and Revenue expenditure is associated with the day-to-day management and maintenance of the houses. Further detail on the revenue income and expenditure is provided within Figures A and B below.



(Figure A – 2016/17 HRA Agreed Expenditure Budget)

The greatest proportion (30%) of revenue spend is on repair and maintenance, with funding for capital projects and debt charges the next highest.



(Figure B – 2016/17 Agreed HRA Income Budgets)

It should be noted that homelessness services and housing support services are funded from the Council's General Fund and do not form part of the Housing Revenue Account.

12.2 Overview

12.2.1 The primary focus of the financial modelling which underpins the Business Plan was to ensure that the HRA can be sustained over the 30 year period, with more detailed focus on the medium term (3-5 years). The model has allowed the review and assessment of the required level of funding over the medium to long term.

12.3 History of the HRA

12.3.1 The HRA has historically been constrained by a very high level of housing debt, which peaked at around £59m in the late 1980's. The debt was incurred when the oil industry arrived in Shetland in the 1970s and money was borrowed to build houses and to maintain and refurbish the original housing stock over a period of years.

A debt resolution was sought from the Scottish Government and agreed in 2013, which has brought borrowing levels down to £15m. This means that the debt is now at a more manageable level.

12.4 Stock Valuation

12.4.1 The 2015-16 Annual Accounts of Shetland Islands Council states the valuation of Council Dwellings on the HRA at £65.771M. Other land, buildings and vehicles held on the HRA have a stated value of £1.078M.

12.5 Financial Modelling

12.5.1 Financial modelling has been done, taking the 2017/18 proposed HRA budgets as the base year. The actual housing stock numbers as at 31 October 2016 have been used to model opening stock.

12.6 Key Financial Assumptions

12.6.1 Inflation

The model has used the longer-term expected rate of 2% CPI over the 30 year period. An assumption as to the future value of inflation is available from government forecasts, which although low at present, with the Consumer Prices Index (CPI) currently⁶ 1.6%, the Office for Budget Responsibility shows government forecasts for CPI to return to 2% by 2020. Given the long-term nature of these assumptions, looking back over the last 20 years, UK CPI averaged 2.7% over the last 10 years, 2.2% over 15 years and 2.1% over 20 years.

Using all of this as a backdrop it is not unreasonable to forecast that CPI may exceed 2% in the long-term and as such to recommend using future inflation proofing of investments at 2.1%, the 20 year average.

12.6.2 Real Growth Above Inflation

The model has assumed growth of 0.5% per annum above underlying inflation. This reflects the increased costs associated with managing and maintaining housing services within a remote community.

12.6.3 HRA Costs

The main expenditure items on the HRA are repairs and maintenance, supervision and management, capital expenditure (including exceptional works) and borrowing costs.

Repairs and Maintenance

This covers the cost of the responsive and cyclical maintenance and the staffing costs associated with providing these services. This takes account of the cyclical maintenance costs detailed in Asset Management Strategy, along with the cost of running the Housing Repairs Service.

Supervision and Management

The HRA requires proper supervision and management in order to ensure that its properties are effectively managed, maintained and let to tenants.

⁶ Office for National Statistics: Consumer Price Inflation, December 2016

Capital Expenditure

Capital expenditure includes the cost of major component replacement. The Asset Management Strategy has been developed following a detailed stock survey and this information has been fed into the model. The focus in the medium term will be to ensure that energy efficiency targets and required planned maintenance of existing housing stock is achieved and maintained. It was acknowledged in the stock condition survey that there will be peaks and troughs in relation to the expenditure from year to year for major component replacements and other capital works. The modelling has smoothed out the impact of those peaks and troughs by building in a flat rate of £3.155m per annum, adjusting for stock numbers, underlying inflation and growth. This flat rate recognises and takes account of the current annual capacity limits within the both the Housing Repair Service and the local construction industry to undertake repair works.

Exceptional Works

The Asset Management Strategy also recognises some additional capital expenditure which is deemed as exceptional works. This expenditure relates to identified failure of blocks manufactured between 1975 and 1981 and used in the construction of some of the HRA's housing stock, and also issues with Cruden design steel frames used in properties built in the late 1940s and early 1950s. It is difficult to forecast the cost of these works accurately until all properties are inspected. Only then will the full extent of the works be known.

Based on the repair work already undertaken and the structural surveys commissioned on the properties, a best and worst case scenarios for the exceptional works has been calculated. The financial modelling uses a mid-point costing in this respect, of £20.706M, programmed over years 2 to 8 of the model.

Borrowing Costs

Historically, borrowing has been required to fund the HRA. The model includes the costs associated with the repayment of this old debt, which will be repaid in full in year 15. There is also a requirement for new borrowing to ensure the Asset Investment Strategy can be met, this is discussed in more detail below.

It is expected that borrowing will be undertaken at the Council's internal pooled rate, on which interest has been estimated at 5.75% for the purpose of the financial modelling.

12.7 How is the HRA Funded?

The HRA must be self-sustaining, so the expenditure detailed above must be funded. The primary ways in which the HRA is funded are through rental Income, use of reserves and borrowing. In year 1 the model also shows Capital Receipt income.

Rental Income

Rent modelling has been undertaken and assumes the underlying inflation rate and real growth factor over the 30 year lifetime of the model. A key service priority for the HRA is to provide affordable rents.

It has been recognised that there is a disparity between the average rental we charge on our smaller properties and that charged by other Councils and Housing Associations. In the medium term (5 years), the plan has incorporated the application of 2% inflation on an annual basis to all rents, with an additional £1 per week to be added to the rent for one and two apartment properties. This will bring the rents in line with benchmark figures, ensuring the differential between rental cost per apartment size does not continue to widen. Tenants were consulted on this for the 2016/17 and agreed with this principle. The impact of this change versus a straight 2.5% increase to all property rentals in the first 5 years is minimal.

In considering rental income there is a need to take account of the levels of rent arrears, bad debts and void costs and make provision for these. The bad debt provision has been estimated at 1% of total rental income as debt written off over the last 5 years have not exceed this level (2013/14 0.66% peak). Void costs are calculated for general and sheltered accommodation at 2.4% and 3% of total rental income, respectively, again this has been modelled on voids data collated over the last 5 years.

To fund the forecast expenditure of the HRA over the medium to long term, solely through rental income, would require rent to rise by more than the underlying inflation and growth rates. Our modelling showed that rental income would need to increase by 6-7% during the years the exceptional works were being undertaken to meet the costs. This would increase rents to an unaffordable level, so has been ruled out as a funding option.

Use of Reserves

The Council has a specific reserve which has been built up over a number of years initially created from the Reserve Fund. This reserve is necessary to ensure the HRA is financially sustainable and can meet any unforeseen or exceptional circumstances.

As at 31 March 2016 the Housing Repairs and Renewals Reserve balance was £13.1m. The financial modelling identified that additional funding, beyond the planned rent increase, is required to meet planned expenditure over the medium to long term. Use of reserves has been tested and will be insufficient to meet the whole of the remaining cost.

The use of the reserve needs to be sustainable, so it is necessary to set a minimum level to which the Housing Repairs and Renewals Reserve can fall. Given that any major fluctuations in the timing of expenditure are likely to be within the Asset Investment Programme, the minimum reserve level has been set at £4m. This is equal to the annualised cost of one year's planned asset investment (£3.2m) plus an allowance of 4% of the current estimated overall cost of exceptional works (£800k). It is felt this is a prudent level to set reserves at to account for fluctuations and unexpected circumstances.

Borrowing

Capital expenditure can also be funded from borrowing. This means that the cost of capital in any particular year is spread over a number of years in line with the conditions of borrowing (i.e. 20 years/30 years or a combination). This results in an annual charge for borrowing which has to be met from revenue. Any borrowing has to be undertaken in line with the current Council's Borrowing Policy.

Borrowing can be internal or external to the Council. The economic case for borrowing externally or using the Council's own reserves to finance capital expenditure is essentially down to whether interest rates are higher or lower than the long term average return on the Council's external investments (with fund managers).

As at 31 March 2016 the HRA borrowing was £13.828m. At this level of borrowing, the debt cost per dwelling is £7,460. This compares to national average of £12,807 per dwelling⁷ for 2015/16.

Further borrowing will be required from year 4 to 26 based on the financial modelling, to meet the remaining funding gap necessary to facilitate the Asset Investment Programme. The total additional borrowing requirement has been estimated at £38.504m, with the debt per dwelling peaking in year 7 at £12,981.

Capital Receipts

In the model it is predicted that a further 4 house sales will occur in 2017/18 through Right to Buy Legislation. The Tenant's Right to Buy came to an end on 1st August 2016, so this is anticipated to be the final year where house sales will take place. The sale of houses generates a capital receipt which is used to funding capital expenditure.

12.10 Financial Risks

There are many variables in the financial modelling to be considered. The assumptions made in the financial modelling have been tested, but financial risks still remain.

- Interest rates are currently at a very low level, but over the lifetime of the model are likely to rise. This is mitigated to some extent with the use of a pooled rate of interest, which are less likely to show major fluctuations.

The uncertainty over the cost of exceptional work required could have a major impact on the model. The worst case scenario, would involve further borrowing and push the model towards a less sustainable position. Comfort can be taken from the findings of work done to date on the affected properties that the worst case scenario is not the likely outcome and that the mid-point estimation used is prudent

⁷ <https://www.scottishhousingregulator.gov.uk> – Sector Analysis – Statistics – 2016 Table FRS102(8) – Financial Ratios and Costs

13.0 Future Investment

13.1 New Affordable House Building

The supply of new affordable housing is a key theme in the Local Housing Strategy. The delivery of new social housing is currently undertaken in partnership with Hjaltland Housing Association who is the lead developer in the delivery of social rented housing. This arrangement maximises external funding into Shetland and is detailed in the Strategic Housing Investment Plan (SHIP) It is important that the Council, as the statutory enabling body for housing, seeks to maximise this kind of opportunity as it offers different funding mechanisms that do not impact on the HRA.

13.2 Asset Management & National Standards (SHQS and EESSH)

The production of an Asset Management Strategy sets a clear course for future investment in the existing housing stock. This information is based on verified data. The shift to planned maintenance and reduced reliance on reactive maintenance will provide clearer programmes of work for staff and tenants. Initial focus will be in ensuring that national standards such as the Scottish Housing Quality Standard (SHQS) and the Energy Efficiency Standard for Social Housing (EESSH) can be met. This will require significant investment in heating and insulation programmes for our housing stock. A five year planned work programme will be developed and shared with tenants. This will be regularly reviewed and progress reported. The Asset Management Strategy makes an explicit link to the Tenant Participation Strategy and the work plan will identify a number of workstreams to develop tenant involvement in this area.

A further strand of the Asset Management Strategy is to evaluate efficient procurement, with assistance from our Corporate Procurement team.

13.3 Other Investment Plans

While the Asset Management Strategy has identified and costed the major component replacements required (e.g kitchens, bathrooms, windows etc), there are a number of additional areas which may require investment due either to construction methods or structural concerns. Where these occur we will commission specific professional surveys and reports and will prioritise investment through review of the programme and the financial modelling outputs.

14.0 Rent Strategy

14.1 Council rents in Shetland have traditionally been at the higher end of the scale in comparison to other local authorities. The high level of rents was due to the historic housing debt which was a main driver in rent-setting in the past. Rent increases have in recent years, up to the resolution of the housing debt, been in excess of inflation. The Business Planning process has allowed us to financially model the impact of costs and investments on rents. Consultation with tenants has indicated that while most tenants feel that their rents are high, they are generally happy with the service they receive. Tenants have expressed concerns about affordability should rent increases be above inflationary level. The business planning process allows a degree of certainty over planned future rent levels. It is recommended to advise tenants of the likely rent levels over the coming three year period, subject to annual review.

14.2 In looking in detail at benchmarking data, it is clear that our previous strategy of applying a flat percentage increase across all property sizes has skewed our rent differentials. In practice this means that our bedsit, one-bedroom and two bedroom properties have rent levels well below the Scottish average. These rents are also much lower than our comparator landlords (see table at 11.1). This gap is being addressed in future rent increases by applying an appropriate formula to the smaller properties. Further rent modelling and tenant consultation will be carried out annually as part of the HRA Budget process.

15.0 Conclusions

15.1 The HRA can demonstrate financial viability over the 30 year life of the Business Plan, whilst at the same time fulfilling the strategic priorities of the Local Housing Strategy.

15.2 The financial modelling gives the HRA a solid base for annual review to be translated into HRA budget proposals.

15.3 The financial modelling allows us to be clear that the financial demands on the HRA over the short to medium term are the maintenance of the existing Housing stock, leaving little scope for new build projects.

15.4 The Business Plan will be reviewed annually and updated for any significant change to the investment plan and reported to the relevant committee through the Budget Process.