Appendix 5 - HRA MEDIUM TERM FINANCIAL STRATEGY AND 30 YEAR FINANCIAL FORECAST

Medium Term Financial Strategy

The Medium Term Financial revenue position provides a cumulative surplus of £75.749m that can be used to support the delivery of the Capital Programme during this period. The projected surplus for the HRA reduces in 2019/20 due to the assumed 1% reduction in rents. However, for 2020/21, rental income increases, which is consistent with the recent government announcement that rents can increase by CPI plus 1% from 2020/21. This increases the level of surpluses for the HRA.

HRA Medium Term Financial Strategy

	2018/19 £'000	2019/20 £'000	2020/21 £'000
Expenditure			
Management & Service Costs	16,702	17,024	17,310
Repairs and Maintenance	9,389	9,615	10,129
Other Costs	1,076	1,094	1,120
Borrowing costs	6,577	6,886	6,988
Total Expenditure	**33,744**	**34,619**	**35,547**
Income			
Rental Income	(50,184)	(49,804)	(51,372)
Service Charges (Tenants)	(3,400)	(3,481)	(3,539)
Other Income	(5,715)	(5,377)	(6,787)
Total Income	**(59,299)**	**(58,662)**	**(61,698)**
Transfer (To) / From reserves	**-**		
Surplus/Revenue Contribution to Capital	**(25,555)**	**(24,043)**	**(26,151)**

30 YEAR FINANCIAL FORECAST

The introduction of self-financing provided local authorities with the opportunity to develop longer term planning to improve the management and maintenance of council homes. The government's self-financing valuation agreed at April 2012 was based on using the rent restructuring formula with increases set at RPI + ½% + £2 per week and was set at a level to provide a balanced business plan over the next 30 years.

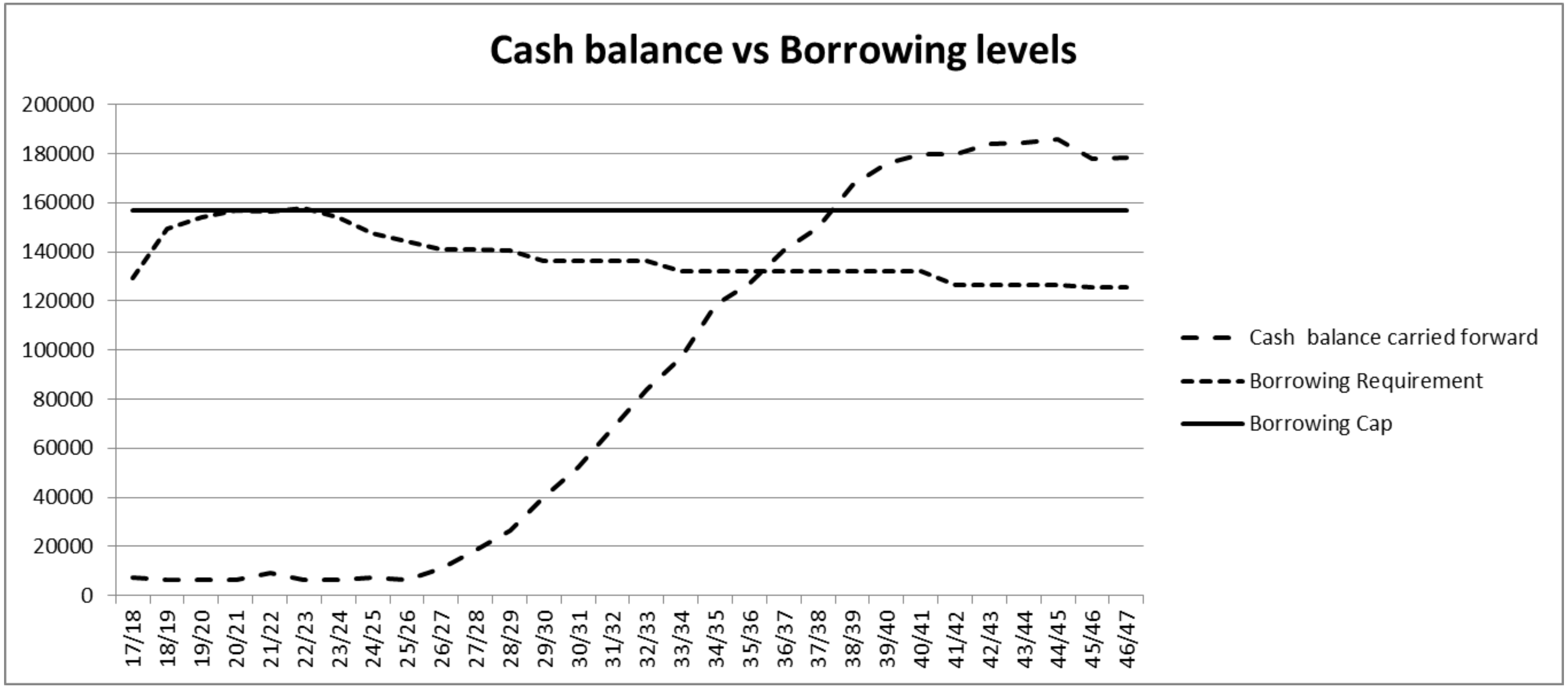
Since then the government has imposed two changes to the rent calculation which have both resulted in significant reductions in future rental income. From April 2015, government guidance revised annual increases to Consumer Price Index (CPI) + 1%. This change removed the flexibility of social landlords to increase social rents each year by an additional £2 where rents were below target, resulting in lower annual rental increases over the long term. Then from April 2016, the Welfare Reform and Work Act 2016 introduced that rents should be reduced by 1% per annum for four years commencing in 2016/17.

However, in October 2017 the government announced that "increases to social housing rents will be limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020". The current financial plan projections shown below continue to provide a balanced business plan and show surpluses of £178.662m over 30 years, which allows for regeneration and new investment within the HRA. This surplus has increased since last year's plan due to the assumptions made for new rental streams from more new build properties. The current plan projections should also be viewed with caution due to the uncertainties around certain government legislation not yet modelled in the plan. As a result of the review carried out by government, a decision was reached to not proceed with the Pay to Stay policy included in the Housing and Planning Act 2016. However, there are still some uncertainties due to other government legislation which may have a significant impact on the long term health of the financial plan, such as:

- Housing & Planning Act 2016 – This act includes a requirement to pay a levy to central government based on the number of void high value homes the HRA has. There is a lot of uncertainty surrounding this policy and it now seems unlikely this will be implemented in this parliament. Therefore this has not been built into the 30 year plan.
- Welfare Reform – The roll out of Universal Credit, reduction in tax credits, single room rates for under 35's in social housing and reduction in benefit cap to £20,000 per annum will all impact on tenant's ability to pay their rent. The assumptions used for bad debts and voids may need increasing resulting in a loss of projected income.
- Uncertainty of future rent policy. Even though there has been an announcement to allow increases in rents of CPI plus 1 % for five years after 2020, any changes in government could overturn this.

30 Year Financial Forecast

	Years 1-5 £'000	Years 6-10 £'000	Years 11-20 £'000	Years 21-30 £'000	Total
Expenditure					
Management & Service Costs	84,808	92,379	207,287	239,172	623,646
Repairs and Maintenance	48,363	55,855	136,073	173,715	414,006
Other Costs	5,319	5,540	12,172	13,924	36,955
Borrowing costs	33,454	56,910	60,018	55,150	205,532
Total Expenditure	**171,944**	**210,684**	**415,550**	**481,961**	**1,280,139**
Income					
Rental Income	254,669	287,312	671,349	792,641	2,005,971
Service Charges (Tenants)	17,323	18,900	42,772	50,323	129,318
Other Income	28,166	27,611	56,619	73,787	186,183
Total Income	**300,158**	**333,823**	**770,740**	**916,751**	**2,321,472**
Net Revenue Income	**128,214**	**123,139**	**355,190**	**434,790**	**1,041,333**
Capital Expenditure					
Capital investment programme	132,157	115,346	218,671	402,607	868,781
New Build projects	49,058	30,000	12,000	-	91,058
Total Expenditure	**181,215**	**145,346**	**230,671**	**402,607**	**959,839**
Funded By:					
Other Capital Income	17,979	11,500	5,000	5,000	39,479
Borrowing	36,681	12,849	-	-	49,530
Direct Revenue Funding	128,214	123,139	355,190	434,790	1,041,333
Total Funding	**182,874**	**147,488**	**360,190**	**439,790**	**1,130,342**
Opening HRA reserves	8,159	9,818	11,960	141,479	8,159
(To) / From Reserves	1,659	2,142	129,519	37,183	170,503
Cash surplus at year 30	**9,818**	**11,960**	**141,479**	**178,662**	**178,662**



30 YEAR Forecast – Assumptions

The 30 year financial forecast has been developed based on the following assumptions:

- A general inflation of CPI assumed as an average of 2% for years 3 to 30.
- Revenue repairs and maintenance costs are assumed to increase by 2.5% per year throughout the plan.

- The forecast currently includes approved schemes and an assumption that an additional 272 new homes will be built in the next 10 years. This amounts to an estimate of £5m for new build schemes in 2018/19, and £60m in the 10 years thereafter utilising current and future right-to-buy receipts and borrowing. There is no allowance for any future regeneration schemes.
- Rents are assumed to decrease by 1% per annum for 2018/19 and 2019/20 and then increase at CPI +1% for three years after. Longer term rent increases of CPI have been assumed. This has increased the overall forecast surplus over the 30 years to £178.662m.

The 30 year financial plan will continue to be updated to reflect the impact of the changes resulting from government legislation and the 2018/19 budget proposals. This will enable a review of future opportunities for additional investment in existing housing stock and building new homes both within the HRA and through alternative delivery models.