

Appendix 4 - HRA MEDIUM TERM FINANCIAL STRATEGY AND 30 YEAR FINANCIAL FORECAST

Medium Term Financial Strategy (MTFS) 2022/23 to 2024/25

The Medium Term Financial revenue position provides a cumulative surplus of £64.802m that can be used to support the delivery of the Capital Programme during this period. The MTFS includes further provision for bringing the repairs and maintenance service back in house and is reflected in the increased management costs to account for the increase in staff requirements and also the increase in revenue repairs costs. The rental income includes increases of CPI+1%, outlined in the central government announcement in 2018. The assumption here is that no further additional investment is made beyond the current levels in the HRA.

	2022/23	2023/24	2024/25
Expenditure			
Management & Service Costs	20,035	20,709	21,179
Repairs and Maintenance	16,031	16,953	17,589
Other Costs	1,200	1,239	1,266
Borrowing costs	5,877	6,602	6,904
Total Expenditure	43,143	45,503	46,938
Income			
Rental Income	(55,339)	(59,055)	(62,273)
Service Charges (Tenants)	(5,873)	(6,074)	(6,216)
Other Income	(1,798)	(1,859)	(1,899)
Total Income	(63,010)	(66,988)	(70,388)
Net Revenue Income	(19,867)	(21,485)	(23,450)

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. From April 2016, the Welfare Reform and Work Act 2016 required that rents should be reduced by 1% per annum for four years commencing in 2016/17, the final year of this decrease was 2019/20. The government then announced in 2018 that social rents could be increased by a maximum of CPI+1% over a 5 year period commencing in 2020/21.

The current financial plan projections shown below continue to provide a viable business plan over 30 years. This is a snapshot based on the 2022/23 budget proposals and is subject to change year-on-year. The overriding assumption is that a projection of costs and income are only included where projects and programmes have received formal Budget Council or Policy & Resources Committee approval.

The plan is designed to give an overview of the financial health of the HRA based on broad assumptions for the long term and current approvals. It is not a detailed plan and therefore surpluses or deficits indicated by the 30 year plan cannot be relied and only provide a guide as to overall financial sustainability. Many factors can change including the funding and financing regime of the HRA itself. However, the movement in the 30 Year Plan year-on-year can provide a guide as to the direction of travel of HRA finances, particularly when looked at over a period of years.

	Years 1-5	Years 6-10	Years 11-20	Years 21-30	Total
	£'000	£'000	£'000	£'000	£'000
Expenditure					
Management & Service Costs	106,218	118,404	277,314	343,014	844,950
Repairs and Maintenance	86,700	99,841	244,867	322,574	753,982
Other Costs	6,313	6,993	16,244	19,802	49,352
Borrowing costs	33,631	36,460	71,784	70,335	212,210
Total Expenditure	232,862	261,698	610,209	755,725	1,860,494
Income					
Rental Income	(307,057)	(344,328)	(783,307)	(937,916)	(2,372,608)
Service Charges (Tenants)	(22,752)	(24,978)	(57,242)	(69,088)	(174,060)
Other Income	(17,836)	(20,186)	(48,095)	(60,133)	(146,250)
Total Income	(347,645)	(389,492)	(888,644)	(1,067,137)	(2,692,918)
Net Revenue Income	(114,783)	(127,794)	(278,435)	(311,412)	(832,424)
Capital Expenditure					
Capital Investment programme	149,409	123,208	261,822	314,750	849,189
Development	86,055	-	-	-	86,055
Total Expenditure	235,464	123,208	261,822	314,750	935,244
Funded By:					
Other Capital Income	(18,043)	-	-	-	(18,043)
Borrowing	(102,228)	-	-	-	(102,228)
HRA Reserves	(410)	(38,192)	(42,817)	(45,461)	(126,880)
Direct Revenue Funding	(114,783)	(85,016)	(219,005)	(269,289)	(688,093)
Total Funding	(235,464)	(123,208)	(261,822)	(314,750)	(935,244)
Opening HRA reserves	(3,000)	(3,000)	(7,586)	(24,199)	(3,000)
(To) / From Reserves	-	(4,586)	(16,613)	3,338	(17,861)
HRA resources	(3,000)	(7,586)	(24,199)	(20,861)	(20,861)

30 Year Forecast – Assumptions

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

- General inflation (CPI) is assumed at an average of 2.1% for years 1 to 30. This is applied to the majority of costs and income in the HRA, with the only exceptions being the repairs and maintenance costs and capital investment programme which are assumed to increase by the RPI rate.
- Rents are assumed to increase by CPI+1% for two further years and revert to CPI thereafter.
- General inflation (RPI) is assumed at an average of 3.1% for years 1 to 30 and is applied to other items of expenditure.
- The forecast includes the council's commitment to a further 416 homes over a 3-year period; this is in addition to the 270 homes that have been delivered since 2019 up to April 2022. The policies around these homes have received formal committee approval, regarding the budget and rent to be set for the new homes. These include the following programmes:
 1. Home Purchase Policy
 2. Housing First
 3. Hidden Homes
 4. Palace Place
 5. Belgrave Day Centre, Portslade
 6. Coldean Lane
 7. Victoria Road
- No assumptions beyond formally approved programmes have been made.

Items not included

There are a number of items which have not been included in the financial plan, this is due to the risks and uncertainties around the costs and income associated with them. At this stage the financial landscape is changing significantly for the HRA and so careful consideration of what can be reasonably included has been taken.

- Any **new supply of homes** that is yet to receive full committee approval is not included. Over the last 12 months the construction landscape has changed significantly, creating a high degree of uncertainty around the cost of investment. As well as this, there is uncertainty with the associated rent levels that can be included in the plan as these have not yet been approved. This could result in a significant difference in the long term financial forecast depending on the rents assumed. The overriding assumption is, normally, that new projects would be self-funding but until this is analysed alongside a strategic housing needs assessment the financial projections remain uncertain. Even small differences between assumptions and final costs can substantially skew long term forecasts. Therefore, at this stage the most prudent approach is to recognise there is a pipeline to deliver new homes but there is insufficient financial certainty for them to be included in the long term forecast. As budgets and rent levels are approved, schemes will be included within the financial forecast.
- **Sustainability and retrofit works:** currently, over the 30 years there is investment included of £199m within the capital investment programme line. This is based on the information provided by the Asset Management System which is subject to review and change following the development of the Asset Management Plan. However, over the first 10 years of the plan there is uncertainty over the level of investment required to reach the council's priority of being a carbon neutral city by 2030. A new retrofit task force, linked to Greater Brighton, is underway to review the investment required and the funding that may become available from Central Government. There are too many uncertainties currently to be able to include this investment and funding in the current iteration of the financial plan. As this becomes clearer, the financial forecast can be updated.
- The current **investment in existing stock** is based on the latest information provided by the council's Asset Management System and informs the cyclical programmes over the 30 years. This is though, subject to review and change based on the outcomes from the Building Safety Bill, Social Housing White Paper and the further development of the Asset Management Plan. These are considered high risk and high cost items of which the outcome will be included in future iterations of the financial forecast.

