

## 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 £79.883m that can be used to support the delivery of the Capital Programme during this period. The projected surplus for the HRA is lower in 2019/20 due to the 1% reduction in rents. However, for 2020/21, rental income increases, which is consistent with the 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

	2019/20 £'000	2020/21 £'000	2021/22 £'000
<b>Expenditure</b>			
Management & Service Costs	17,358	17,486	17,791
Repairs and Maintenance	9,389	10,190	10,460
Other Costs	639	652	665
Borrowing costs	6,299	6,616	6,684
<b>Total Expenditure</b>	<b>33,685</b>	<b>34,944</b>	<b>35,600</b>
<b>Income</b>			
Rental Income	(50,030)	(51,884)	(54,263)
Service Charges (Tenants)	(3,703)	(3,770)	(3,838)
Other Income	(5,056)	(6,311)	(5,257)
<b>Total Income</b>	<b>(58,789)</b>	<b>(61,965)</b>	<b>(63,358)</b>
<b>Net Revenue Income</b>	<b>(25,104)</b>	<b>(27,021)</b>	<b>(27,758)</b>

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### 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 £288.748m 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 and the inclusion of rental increases at CPI+1% for a further two years than last years plan allowed for.

### 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 2 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 260 new homes will be built over the next 7 years. This amounts to an estimate of £70m from 2020/21 utilising current and estimated future right-to-buy receipts and borrowing. There is a small allowance of £2.000m per annum for purchasing properties but no further allowance for any future regeneration schemes beyond 2024/25.
- Rents are assumed to decrease by 1% per annum for 2019/20 and then increase at CPI +1% for five years after. Longer term rent increases of CPI have been assumed.

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	Years 1-5	Years 6-10	Years 11-20	Years 21-30	Total
	£'000	£'000	£'000	£'000	£'000
<b>Expenditure</b>					
Management & Service Costs	86,901	92,885	203,535	232,654	615,975
Repairs and Maintenance	50,140	57,155	134,624	167,934	409,853
Other Costs	3,338	3,601	8,365	10,197	25,501
Borrowing costs	38,426	54,004	69,825	65,056	227,311
<b>Total Expenditure</b>	<b>178,805</b>	<b>207,645</b>	<b>416,349</b>	<b>475,841</b>	<b>1,278,640</b>
<b>Income</b>					
Rental Income	(262,553)	(308,438)	(708,972)	(846,056)	(2,126,019)
Service Charges (Tenants)	(18,619)	(20,629)	(47,345)	(56,937)	(143,530)
Other Income	(28,443)	(24,782)	(52,949)	(68,856)	(175,030)
<b>Total Income</b>	<b>(309,615)</b>	<b>(353,849)</b>	<b>(809,266)</b>	<b>(971,849)</b>	<b>(2,444,579)</b>
<b>Net Revenue Income</b>	<b>(130,810)</b>	<b>(146,204)</b>	<b>(392,917)</b>	<b>(496,008)</b>	<b>(1,165,939)</b>
<b>Capital Expenditure</b>					
Capital investment programme	129,943	118,636	220,260	379,152	847,991
Development	80,966	39,518	20,000	20,000	160,484
<b>Total Expenditure</b>	<b>210,909</b>	<b>158,154</b>	<b>240,260</b>	<b>399,152</b>	<b>1,008,475</b>

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	Years 1-5	Years 6-10	Years 11-20	Years 21-30	Total
	£'000	£'000	£'000	£'000	£'000
<b>Funded By:</b>					
Other Capital Income	(25,945)	(11,855)	(6,000)	(6,000)	(49,800)
Borrowing	(50,990)	(21,594)	-	-	(72,584)
Direct Revenue Funding	(130,810)	(146,204)	(392,917)	(496,008)	(1,165,939)
<b>Total Funding</b>	<b>(207,745)</b>	<b>(179,653)</b>	<b>(398,917)</b>	<b>(502,008)</b>	<b>(1,288,323)</b>
Opening HRA reserves	(7,853)	(5,736)	(27,235)	(185,892)	(7,853)
(To) / From Reserves	2,117	(21,499)	(158,657)	(102,856)	(280,895)
<b>Cash surplus at year 30</b>	<b>(5,736)</b>	<b>(27,235)</b>	<b>(185,892)</b>	<b>(288,748)</b>	<b>(288,748)</b>