

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

### Medium Term Financial Strategy (MTFS)

The Medium Term Financial revenue position provides a cumulative surplus of £69.819m that can be used to support the delivery of the Capital Programme during this period. The MTFS includes provision for bringing the repairs and maintenance 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.

### HRA Medium Term Financial Strategy

	2020/21	2021/22	2022/23
<b>Expenditure</b>			
Management & Service Costs	17,522	17,717	17,965
Repairs and Maintenance	12,400	12,923	13,657
Other Costs	1,170	1,185	1,208
Borrowing costs	6,292	7,045	8,657
<b>Total Expenditure</b>	<b>37,384</b>	<b>38,870</b>	<b>41,487</b>
<b>Income</b>			
Rental Income	(50,685)	(52,726)	(57,122)
Service Charges (Tenants)	(4,979)	(5,023)	(5,144)
Other Income	(5,436)	(3,587)	(2,858)
<b>Total Income</b>	<b>(61,100)</b>	<b>(61,336)</b>	<b>(65,124)</b>
<b>Net Revenue Income</b>	<b>(23,716)</b>	<b>(22,466)</b>	<b>(23,637)</b>

### **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 introduced 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 rents 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 balanced business plan and show surpluses of £226.810m over 30 years, which allows for regeneration and new investment within the HRA. This surplus has reduced since last year's plan mainly due to the provisions made for bringing the repairs and maintenance contract back in house and maintaining investment in stock at a similar level to last year's assumptions, supported by the data obtained from the asset management system. It also assumes that the repairs and maintenance and the capital investment programme are subject to inflation at RPI instead of the previously assumed CPI rate following advice from our business planning consultants. However, there are some uncertainties around the costs of the new repairs and maintenance service and as it becomes established, the business plan will be updated to reflect any efficiencies that the new service can make.

There are still some uncertainties due to government legislation which may have a significant impact on the long term health of the financial plan. These are outlined in section 6 of the main report.

### 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 1 to 30. 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 assumed to increase by the RPI rate.
- A general inflation of RPI assumed as an average of 2.6% for years 1 to 30.
- The forecast includes the council's commitment to deliver 800 homes over a 4 year period, with c.90 of these being bought forward during 2019/20. The plan includes the investment to deliver 710 over the next 3 years. The investment is assumed to be c.£179m utilising current and estimated right-to-buy receipts, commuted sums, potential grant funding and HRA borrowing. There is no further allowance for any future regeneration schemes beyond 2023/24.
- Rents are assumed to increase by CPI+1% for four years and revert to CPI thereafter.

The 30 year financial plan will continue to be updated to reflect the impact of the changes resulting from government legislation and the 2020/21 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.

	Years 1-5	Years 6-10	Years 11-20	Years 21-30	Total
	£'000	£'000	£'000	£'000	£'000
<b>Expenditure</b>					
Management & Service Costs	90,839	100,838	234,072	285,030	<b>710,779</b>
Repairs and Maintenance	67,301	76,816	180,721	223,746	<b>548,584</b>
Other Costs	6,052	6,673	15,502	18,897	<b>47,124</b>
Borrowing costs	54,655	62,555	98,636	96,989	<b>312,835</b>
<b>Total Expenditure</b>	<b>218,847</b>	<b>246,882</b>	<b>528,931</b>	<b>624,662</b>	<b>1,619,322</b>
<b>Income</b>					
Rental Income	(283,736)	(329,437)	(745,130)	(878,741)	<b>(2,237,044)</b>
Service Charges (Tenants)	(19,209)	(21,139)	(48,461)	(58,009)	<b>(146,818)</b>
Other Income	(24,682)	(21,606)	(51,348)	(67,741)	<b>(165,377)</b>
<b>Total Income</b>	<b>(327,627)</b>	<b>(372,182)</b>	<b>(844,939)</b>	<b>(1,004,491)</b>	<b>(2,549,239)</b>
<b>Net Revenue Income</b>	<b>(108,780)</b>	<b>(125,300)</b>	<b>(316,008)</b>	<b>(379,829)</b>	<b>(929,917)</b>
<b>Capital Expenditure</b>					
Capital investment programme	131,180	97,072	184,399	306,772	<b>719,423</b>
Development	179,877	-	1,787	3,985	<b>185,649</b>
<b>Total Expenditure</b>	<b>311,057</b>	<b>97,072</b>	<b>186,186</b>	<b>310,757</b>	<b>905,072</b>
<b>Funded By:</b>					
Other Capital Income	(50,731)	-	-	-	<b>(50,731)</b>
Borrowing	(152,116)	-	-	-	<b>(152,116)</b>
HRA Reserves	(4,012)	-	-	-	<b>(4,012)</b>
Direct Revenue Funding	(104,198)	(97,072)	(186,186)	(310,757)	<b>(698,213)</b>
<b>Total Funding</b>	<b>(311,057)</b>	<b>(97,072)</b>	<b>(186,186)</b>	<b>(310,757)</b>	<b>(905,072)</b>
Opening HRA reserves	(6,383)	(6,383)	(33,523)	(160,818)	<b>(6,383)</b>
(To) / From Reserves	0	(27,140)	(127,295)	(65,992)	<b>(220,427)</b>
<b>Cash surplus at year 30</b>	<b>(6,383)</b>	<b>(33,523)</b>	<b>(160,818)</b>	<b>(226,810)</b>	<b>(226,810)</b>