

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 £75.714m 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

	2021/22 £'000	2022/23 £'000	2023/24 £'000
Expenditure			
Management & Service Costs	19,366	19,420	19,544
Repairs and Maintenance	12,627	13,468	14,381
Other Costs	1,098	1,112	1,120
Borrowing costs	6,120	5,752	6,109
Total Expenditure	39,211	39,752	41,154
Income			
Rental Income	(52,685)	(57,426)	(62,407)
Service Charges (Tenants)	(5,270)	(5,341)	(5,402)
Other Income	(2,756)	(2,140)	(2,404)
Total Income	(60,711)	(64,907)	(70,213)
Net Revenue Income	(21,500)	(25,155)	(29,059)

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 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 £260.248m over 30 years, which allows for regeneration and new investment within the HRA. This surplus has increased since last year's plan mainly due to the assumptions around financing costs reducing in the early years of the plan as well as an increase in new homes of nearly 400 since last year's assumptions, these have been offset by an increase in the provisions made for the repairs and maintenance contract back in house and increasing the investment in stock compared to last year's assumptions, supported by the data obtained from the asset management system. The increase in stock investment is mainly in relation to the inclusion of budget in future years for work required to be carried out to meet the city's target of being carbon neutral by 2030. 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 listed below:

- The Welfare Reform and Work Act 2016 continues to be implemented with the reduction of the benefit cap to £20,000 per annum during 2016/17, the single room rates extended to people under 35, the roll out of Universal Credit in 2017 and the reduction in tax credits implemented from October 2017. These reforms are expected to affect many tenants' ability to pay their rent. A review of the current arrears means there is no requirement to increase the budget for the bad debt provision for 2021/22. However, it continues to be difficult to accurately predict to what extent this will impact on HRA resources longer term and will be kept under review.

- Uncertainty of future rent policy. Even though there has been an announcement to allow increases in rents of CPI plus 1% for five years, any future rent policy may reduce or freeze rent increases.
- Any additional investment requirements arising from the proposed Building Safety law and the and the Social Housing white paper “The charter for social housing residents” and the included government review of the Decent Homes Standard.
- The implications of the Social Housing white paper and what this means for the long term investment in the HRA’s stock, management services and wider estates work.

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 1.8% 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 a minimum of 800 new affordable homes. A pipeline for the delivery of new affordable homes has been developed that exceeds the 800 homes target over a 5 year period. The investment for this is £277.546m, based on current cost rates. The delivery programme utilises 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 2024/25.
- Rents are assumed to increase by CPI+1% for three 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
Expenditure					
Management & Service Costs	98,811	107,428	248,837	303,196	758,272
Repairs and Maintenance	70,668	81,378	191,310	236,621	579,977
Other Costs	5,609	6,031	13,962	17,019	42,621
Borrowing costs	33,532	47,881	82,980	83,869	248,262
Total Expenditure	208,620	242,718	537,089	640,705	1,629,132
Income					
Rental Income	(303,708)	(340,122)	(770,589)	(909,960)	(2,324,379)
Service Charges (Tenants)	(20,241)	(21,530)	(49,330)	(58,987)	(150,088)
Other Income	(18,756)	(20,903)	(54,284)	(64,246)	(158,189)
Total Income	(342,705)	(382,555)	(874,203)	(1,033,193)	(2,632,656)
Net Revenue Income	(134,085)	(139,837)	(337,114)	(392,488)	(1,003,524)
Capital Expenditure					
Capital Investment programme	131,683	95,927	209,463	311,956	749,029
Development	277,546	-	2,043	4,386	283,975
Total Expenditure	409,229	95,927	211,506	316,342	1,033,004
Funded By:					
Other Capital Income	(85,575)	-	-	-	(85,575)
Borrowing	(195,876)	-	-	-	(195,876)
HRA Reserves	-	-	(10,431)	(38,683)	(49,114)
Direct Revenue Funding	(127,778)	(95,927)	(201,075)	(277,659)	(702,439)
Total Funding	(409,229)	(95,927)	(211,506)	(316,342)	(1,033,004)
Opening HRA reserves	(8,466)	(14,584)	(58,494)	(184,102)	(8,466)
(To) / From Reserves	(6,118)	(43,910)	(125,608)	(76,146)	(251,782)
Cash surplus at year 30	(14,584)	(58,494)	(184,102)	(260,248)	(260,248)