

## Appendix 4 - HRA Medium Term Financial Strategy and 30 Year Financial Forecast

### Medium Term Financial Strategy (MTFS) 2023/24 to 2027/28

The Medium Term Financial revenue position provides a cumulative surplus of £95.918m that can be used to support the delivery of the Capital Programme during this period. The focus for the Medium Term will remain on delivering the key priorities outlined in the main report. To ensure Value for Money is maintained, an assumption has been made that the Medium Term Financial Strategy will identify efficiencies of c.0.5% per annum of expenditure budgets (excluding financing costs). This will also include a review of all income streams during 2023/24 to ensure the HRA maximises all of its income streams, for example a review of the commercial income.

	2023/24	2024/25	2025/26	2026/27	2027/28
<b>Expenditure</b>					
Management & Service Costs	23,099	24,919	25,275	25,624	25,971
Repairs and Maintenance	18,226	20,331	21,332	21,709	22,076
Other Costs	1,318	1,388	1,416	1,444	1,473
Borrowing costs	6,493	8,170	8,714	9,581	9,939
<b>Total Expenditure</b>	<b>49,136</b>	<b>54,808</b>	<b>56,737</b>	<b>58,358</b>	<b>59,459</b>
<b>Income</b>					
Rental Income	(59,970)	(64,802)	(67,559)	(67,637)	(68,829)
Service Charges (Tenants)	(4,718)	(4,945)	(5,131)	(5,125)	(5,218)
Other Income	(3,806)	(4,010)	(4,143)	(4,210)	(4,313)
<b>Total Income</b>	<b>(68,494)</b>	<b>(73,757)</b>	<b>(76,833)</b>	<b>(76,972)</b>	<b>(78,360)</b>
<b>Net Revenue Income</b>	<b>(19,358)</b>	<b>(18,949)</b>	<b>(20,096)</b>	<b>(18,614)</b>	<b>(18,901)</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. 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. Following these changes for a six-week period from August 2022 to October 2022 DLUHC undertook a consultation with Social Housing providers, reviewing the rent policy and proposed uplift on rents for 2023/24. The result of this consultation was that from 1<sup>st</sup> April 2023 rents can be uplifted by 7% which is 4.1% lower than if the rent policy of CPI+1% was applied. This is factored into the financial forecast and has enabled a balance to be struck to keep investment stable and providing support for tenants during the current cost of living crisis.

The current financial plan projections shown below continue to provide a viable business plan over 30 years. This is a snapshot based on the 2023/24 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 on 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.

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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	124,887	134,702	301,253	350,432	911,274
Repairs and Maintenance	103,674	116,119	264,403	315,961	800,157
Other Costs	7,041	7,821	18,169	22,149	55,179
Borrowing costs	42,897	65,372	137,673	148,497	394,439
<b>Total Expenditure</b>	<b>278,499</b>	<b>324,014</b>	<b>721,498</b>	<b>837,039</b>	<b>2,161,049</b>
<b>Income</b>					
Rental Income	(328,799)	(364,526)	(830,560)	(992,463)	(2,516,348)
Service Charges (Tenants)	(25,136)	(27,662)	(63,538)	(76,569)	(192,905)
Other Income	(20,482)	(23,220)	(55,358)	(69,129)	(168,189)
<b>Total Income</b>	<b>(374,417)</b>	<b>(415,408)</b>	<b>(949,456)</b>	<b>(1,138,161)</b>	<b>(2,877,442)</b>
<b>Net Revenue Income</b>	<b>(95,918)</b>	<b>(91,394)</b>	<b>(227,958)</b>	<b>(301,122)</b>	<b>(716,93)</b>
<b>Capital Expenditure</b>					
Capital Investment programme	171,260	154,814	313,818	307,636	947,529
Development	72,624	-	-	-	72,624
<b>Total Expenditure</b>	<b>243,884</b>	<b>154,814</b>	<b>313,818</b>	<b>307,636</b>	<b>1,020,153</b>
<b>Funded By:</b>					
Other Capital Income	(22,422)	-	-	-	(22,422)
Borrowing	(125,533)	(63,420)	(91,041)	(15,875)	(295,870)
HRA Reserves	-	(2,064)	(3,922)	(28,328)	(34,313)
Direct Revenue Funding	(95,929)	(89,330)	(218,855)	(263,433)	(667,548)
<b>Total Funding</b>	<b>(243,884)</b>	<b>(154,814)</b>	<b>(313,818)</b>	<b>(307,636)</b>	<b>(1,020,153)</b>
Opening HRA reserves	(3,000)	(3,000)	(3,000)	(8,182)	(3,000)
(To) / From Reserves	(0)	0	(5,181)	(9,361)	(14,542)
<b>Cash surplus at year 30</b>	<b>(3,000)</b>	<b>(3,000)</b>	<b>(8,181)</b>	<b>(17,543)</b>	<b>(17,542)</b>

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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.
- Rents are assumed to increase by CPI+1% in 2024/25 and revert to CPI increases thereafter.
- For 2023/24 management and repairs & maintenance are inflated by 10% to reflect the uncertainty in the economic environment currently. Thereafter, management costs are inflated by CPI. Repairs and Maintenance however is assumed to inflate by 5% in 2025/26 and then revert to CPI beyond that.
- The forecast includes the council's commitment to a further 389 homes over a 5-year period; this is in addition to the 479 homes that have been delivered since 2019 up to March 2023. 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. Other acquisitions
  3. Hidden Homes
  4. Palace Place
  5. Belgrave Day Centre, Portslade
  6. Coldean Lane
  7. Design Competition (Rotherfield Crescent & Frederick Street)
  8. Windlesham Close
- 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 continued to provide significant challenges, creating a high degree of uncertainty around the cost

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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 £274m within the capital investment programme line an increase of £75m when compared to the 2022/23 version. 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. The retrofit task force, linked to Greater Brighton, is underway that continues to review the investment required and the funding that may become available from Central Government. 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 Act, 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. Consideration will be given to current budget provision to ascertain if there is already provision that is being made to deal with investment required.

