

Appendix 4 – HRA MTFS and 30 Year financial plan

Medium Term Financial Strategy (MTFS) 2024/25 to 2028/29

- 1.1 The Medium Term Financial revenue position provides a net deficit after allocation of revenue and capital budgets of £1.236m. There are mitigations that can be actioned to address this these being; efficiency savings that can be identified across service expenditure (this would represent a 0.3% saving on expenditure), rent policy updates i.e. confirmation of CPI+1 continuing, which could remove this deficit entirely or at the last resort any deficit could be funded from the reserve balance of £10.838m.
- 2.1 Current trends indicate a growing underlying deficit in the HRA over the medium term, demonstrated by the fact that there is a £3.266m surplus in year 1, falling to a £3.183m deficit by year 5. This is an unsustainable position and needs addressing as outlined above.
- 3.1 The focus for the Medium Term will remain on delivering the key priorities outlined in the main report but to ensure that, wherever possible, this is met from within the existing budget envelope.
- 4.1 A review of all income streams during 2024/25 will be conducted to ensure the HRA maximises all of its income, for example a review of the commercial income and garages and car parks.

Table 1 MTFS	2024/25	2025/26	2026/27	2027/28	2028/29	Total
Expenditure						
Management & Service Costs	25,685	26,384	26,911	27,692	28,220	134,892
Repairs and Maintenance	20,814	21,255	21,670	22,276	22,666	108,681
Other Costs	1,362	1,411	1,440	1,483	1,528	7,224
Borrowing costs	8,825	10,568	12,604	14,206	15,774	61,977
Depreciation	16,516	17,345	18,255	19,098	20,017	91,231
Total Expenditure	73,202	76,963	80,880	84,755	88,205	404,005
Income						-
Rental Income	(67,110)	(68,787)	(70,349)	(72,457)	(74,510)	(353,213)
Service Charges (Tenants)	(5,014)	(5,091)	(5,188)	(5,335)	(5,487)	(26,115)
Other Income	(4,344)	(4,517)	(4,680)	(4,875)	(5,025)	(23,441)
Total Income	(76,468)	(78,395)	(80,217)	(82,667)	(85,022)	(402,769)
Net Revenue Income	(3,266)	(1,432)	663	2,088	3,183	1,236

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30 Year financial forecast

- 5.1 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. As outlined in the main report, rents were capped to a 7% uplift in 2023/24 which removed c.£2m from the rental income base. Over a 30-year period this has removed c£60m (excluding inflation) from the income stream, reducing the resources available to support investment in homes over that time.
- 6.1 The current financial plan projections shown below indicate that over the medium term the HRA remains in a manageable but more pressurised financial position however, this changes after year 5 where the HRA is anticipated to move into a revenue deficit position, which cannot be maintained. Current estimates indicate a total deficit over 30 years of £79.543m as shown in table 2 below. Therefore it is imperative that the HRA finances are kept under close review to ensure it remains financially stable in the long term. The deficit shown is 2.48% of the expenditure outlined which, with sound financial planning, could be managed but does rely on savings and efficiencies being identified and agreed early in the process.
- 7.1 Table 3 provides a long term view of the HRA capital programme totalling £1,101,740m, it clearly shows that there is a heavy reliance on external borrowing to fund it. This level of borrowing at the interest rates assumed is having an impact on the revenue costs within 30 year revenue projection.
- 8.1 The investments are based on a view of all known projects in the first five years and then an assumed level of investment determined by the councils asset management system thereafter. Any future asset management strategy will determine the level of investment in future iterations of the plan.
- 9.1 Table 4 outlines the HRA reserves projections on the basis that over the 30 year period the reserves will remain at the balance of £10.838m, albeit using some of the reserves in the middle years of the plan to manage borrowing costs. Use of reserves need to be considered carefully as they are a finite resource.
- 10.1 This is a snapshot based on the 2024/25 budget proposals and estimates and is subject to change year-on-year. For example, the position could very easily change if the economic environment improves significantly. The overriding assumption is that a projection of costs and income are only included where projects and programmes have received formal Budget Council or Strategy, Finance & City Regeneration 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

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provide a guide as to overall financial sustainability. Many factors can change including the funding and financing regime of the HRA itself and government rent policy. 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.

Table 2 – Revenue 30 Year finance forecast	Years 1-5	Years 6-10	Years 11-20	Years 21-30	Total
	£'000	£'000	£'000	£'000	£'000
Revenue Expenditure					
Management & Service Costs	134,892	148,960	338,371	401,242	1,023,465
Repairs and Maintenance	108,681	119,139	268,188	314,881	810,889
Other Costs	7,224	8,109	18,838	22,963	57,134
Borrowing costs	61,977	91,107	212,699	242,393	608,176
Depreciation	91,231	104,679	234,254	271,861	702,025
Total Revenue Expenditure	404,005	471,994	1,072,350	1,253,340	3,201,689
Income					
Rental Income	(353,213)	(393,958)	(900,522)	(1,078,351)	(2,726,044)
Service Charges (Tenants)	(26,115)	(29,110)	(67,023)	(80,902)	(203,150)
Other Income	(23,441)	(26,813)	(63,570)	(79,128)	(192,952)
Total Income	(402,769)	(449,881)	(1,031,115)	(1,238,381)	(3,122,146)
Net Revenue (surplus) / deficit	1,236	22,113	41,235	14,959	79,543

Table 3 – Capital 30 year Finance Forecast	Years 1-5	Years 6-10	Years 11-20	Years 21-30	Total
	£'000	£'000	£'000	£'000	£'000
Capital Expenditure					
Capital Investment programme	285,022	166,358	300,777	291,860	1,044,017
Development	57,724	-	-	-	57,724
Total Expenditure	342,746	166,358	300,777	291,860	1,101,741
Funded By:					
Other Capital Income	(18,495)	(3,610)	(8,385)	(10,222)	(40,712)
New Capital Borrowing	(231,878)	(58,069)	(58,138)	(23,046)	(371,131)
Major Repairs Reserve	(92,373)	(104,679)	(234,254)	(258,592)	(689,898)
Total Capital Funding	(342,746)	(166,358)	(300,777)	(291,860)	(1,101,741)

Table 4 – Reserves 30 year finance forecast	Years 1-5	Years 6-10	Years 11-20	Years 21-30	Total
	£'000	£'000	£'000	£'000	£'000
Reserves					
Opening HRA reserves	(10,838)	(10,838)	(4,968)	(4,973)	(10,838)
(To) / From Reserves	(0)	5,870	(5)	(5,865)	(0)
Cash surplus carried forward	(10,838)	(4,968)	(4,973)	(10,838)	(10,838)

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11.1 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 2024/25 management and repairs & maintenance are inflated by 10% to reflect the uncertainty in the economic environment currently. Thereafter, management costs are inflated by CPI.

12.1 The forecast includes the council's commitment to a further 154 homes over the 5-year period in total; this is in addition to the 769 homes that have been delivered since 2019 up to March 2024. 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, there is a pipeline of new homes that are being worked upon, but they remain uncertain at this time to be included, see below.

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 two years the construction landscape has continued to provide significant challenges, 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 the strategic housing needs assessment the financial

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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 £233m within the capital investment programme. 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 next 6 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 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, Fire Safety (England) Regulations, Social Housing (Regulation) Act 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.
- The investment required as a result of the implementation of the Building Safety Act and Fire Safety (England) Regulations is anticipated to be very significant, including in relation to works requirements expected to arise from compliance surveys currently being undertaken on Large Panel System and some other blocks, and will impact on both revenue and capital budgets.

