

## Appendix 4 – HRA MTFS and 30 Year financial plan

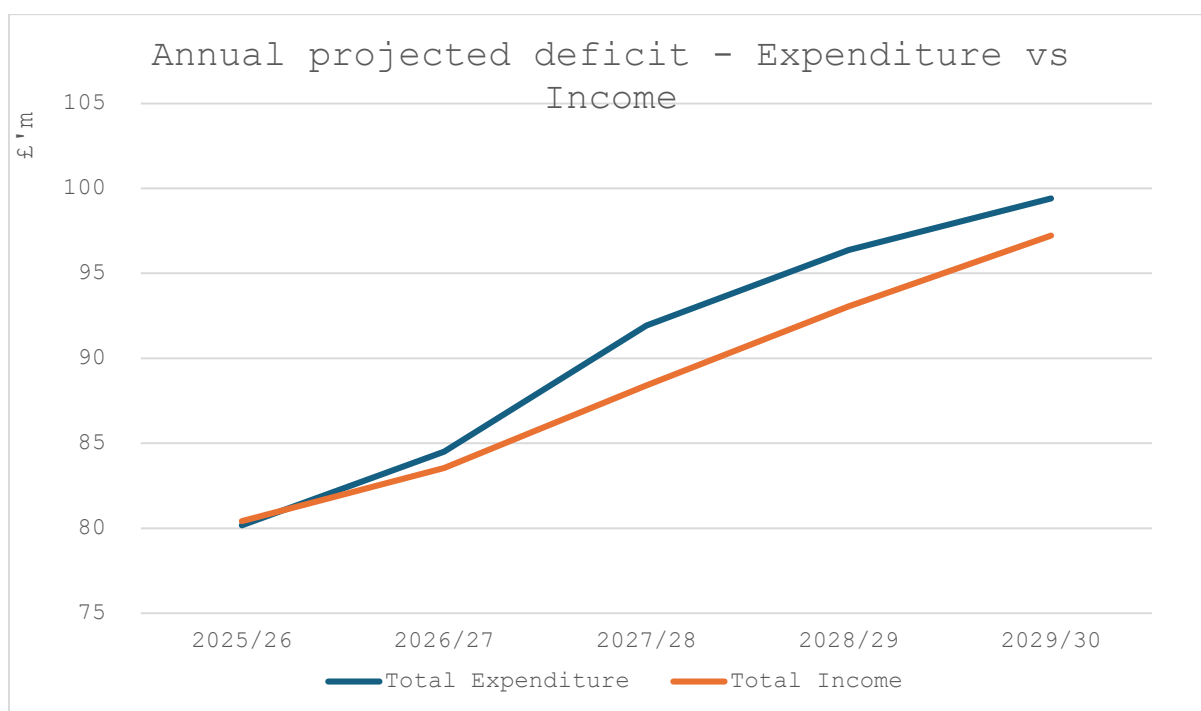
### 1. Medium Term Financial Strategy (MTFS) 2025/26 to 2029/30

- 1.1 The Medium Term Financial revenue position provides a net deficit after allocation of revenue and capital budgets of £8.848m. 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), Local Government Reforms including potential rent convergence or at the last resort any deficit could be funded from the useable reserve balance of £8.657m.
- 1.2 Current trends indicate a growing underlying deficit in the HRA over the medium term, demonstrated by the fact that there is a £0.242m surplus in year 1, falling to a £2.197m deficit by year 5. This is an unsustainable position and needs addressing as outlined above.
- 1.3 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. With a clear strategy being developed to manage this position, this is not isolated to Brighton & Hove. Recent housing press coverage indicates that of those authorities surveyed by the financial year 2029/30, 64% of them will be in financial difficulty with many indicating similar trends to the table below. The deficit shown is 1.9% 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.
- 1.4 A review of all income streams will need to be conducted alongside rationalising the service, ensuring it is running as efficiently as possible to ensure the HRA maximises all of its resources.

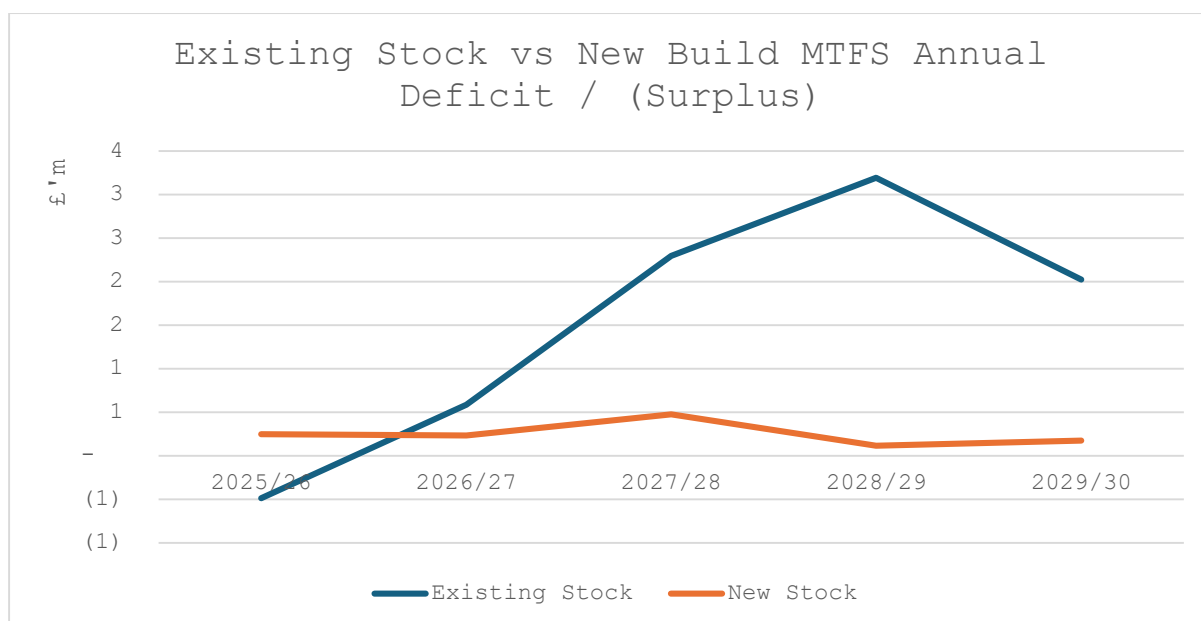
	2025/26	2026/27	2027/28	2028/29	2029/30	Total
<b>Expenditure</b>						
Management & Service Costs	28,589	29,570	30,329	31,078	31,692	151,258
Repairs and Maintenance	21,194	21,724	22,449	23,127	23,518	112,012
Other Costs	2,242	2,291	2,337	2,384	2,431	11,685
Borrowing costs	11,696	14,146	19,693	22,327	23,963	91,825
Major Repairs Reserve	16,449	16,778	17,114	17,456	17,805	85,602
<b>Total Expenditure</b>	<b>80,170</b>	<b>84,509</b>	<b>91,922</b>	<b>96,372</b>	<b>99,409</b>	<b>452,382</b>
<b>Income</b>						
Rental Income	(70,383)	(73,293)	(77,952)	(82,383)	(86,142)	(390,153)
Service Charges (Tenants)	(5,206)	(5,314)	(5,413)	(5,514)	(5,725)	(27,172)
Other Income	(4,823)	(4,937)	(5,042)	(5,168)	(5,346)	(25,316)
<b>Total Income</b>	<b>(80,412)</b>	<b>(83,544)</b>	<b>(88,407)</b>	<b>(93,065)</b>	<b>(97,213)</b>	<b>(442,641)</b>
Contribution to / (from) reserves	-	(150)	(743)	-	-	(893)
<b>(Surplus) / Deficit</b>	<b>(242)</b>	<b>817</b>	<b>2,772</b>	<b>3,307</b>	<b>2,196</b>	<b>8,848</b>

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- 1.5 The chart below outlines the impact that the new build programme is having on the MTFS for the HRA. There is a deficit on the new builds across the whole five years, however this is as expected, as the cost of new of borrowing is incurred before new homes are completed. Over the course of the 30 year plan this is repaid but it is a short term cost impact for the HRA.
- 1.6 The main issue, as is demonstrated in the chart, is with the annual deficit position relating to the existing stock which is driven primarily by the increased financing costs year on year. The financing costs for existing stock over that period increase by more than £7m which is a significant portion of the deficit position being reported.
- 1.7 This supports the council's approach to approving new supply, whereby schemes are approved that are assessed as viable i.e. they breakeven over 60 years. This approach does not place the HRA at undue finance risk. Although the delivery of new supply may need to be considered going forward, in terms of spreading the programme over a greater number of years to lessen the financial impact in the short term.



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### MTFS Assumptions

1.8 The following table outlines the assumptions made in formulating the MTFS figures:

Category	Assumption
Salary related	2026/27 assumed at 2.2% remaining 4 years based on long term CPI rate of 2%.
Repairs & Maintenance	2026/27 assumed at 2.2% remaining 4 years based on long term CPI rate of 2%.
Supplies & Services	2026/27 assumed at 2.2% remaining 4 years based on long term CPI rate of 2%.
Rents	Assumed CPI+1% as per the latest rent setting policy
Service Charges	2026/27 assumed at 2.2% remaining 4 years based on long term CPI rate of 2%.
Other income	2026/27 assumed at 2.2% remaining 4 years based on long term CPI rate of 2%.
Savings / Efficiencies	These cannot be quantified for future years – this will require consultation and a full review of the resources available.
LPS	Annual revenue investment for CCTV and Temporary Plant hire is included in the 5 year MTFS, from year six these costs are assumed to be removed.
Reserves	General reserves are maintained at the levels from April 2025.
LLP Profits	As per the June 2024 Cabinet paper the profit from the LLP will be used to fund the cost of interest for the construction period at Sackville Trading Estate. This may require the use of reserve which will be repaid from the LLP profit when received in later years.

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### **2. 30 Year financial forecast**

- 2.1 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. This decision in today's terms has removed £9.3m from the core rent budget.
- 2.2 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.£2.6m from the rental income base.
- 2.3 The cumulative impact of both of these decisions has removed £11.9m from the core rent budget, over a 30-year period this equates to in excess of £350m (excluding inflation) from the income stream, reducing the resources available to support investment in homes over that time. This level of income would have supported a viable business plan.
- 2.4 The current financial plan projections shown below indicate that over the medium term the HRA is forecast to be in deficit in 12 months' time where a more pressurised financial position is faced. This continues after year 5 where the HRA is anticipated to remain in a revenue deficit position, which cannot be maintained. Current estimates indicate a total deficit over 30 years of £202.710m as shown in table 2 below. Therefore it is imperative that action is taken to manage the situation and that the HRA finances are kept under close review to ensure it remains financially stable in the long term.
- 2.5 Table 3 provides a long term view of the HRA capital programme totalling £1,350bn, 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.
- 2.6 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.
- 2.7 Table 4 outlines the HRA reserves projections on the basis that over the 30 year period the reserves will remain at the balance of £11.2m (including the £3m working balance). Use of reserves need to be considered carefully as they are a finite resource.
- 2.8 The impact of the new build programme on the 30 year projections is a healthy one, it is estimated that the cost of managing, maintaining the new builds completed from

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2025/26 is creating a surplus of £15.9m over 30 years, meaning that the existing stock is actually in deficit by £218.624m. This again supports the councils approach to the new build programme, which remains positive.

- 2.9 However, the total level of borrowing regardless of the bottom line position needs to be considered in line with the prudential indicators the council sets on an annual basis. The total level of borrowing now there is no cap on borrowing needs to be monitored closely. If left to increase the HRA could become highly geared, which is not a recommended position to be in.
- 2.10 For the first 5 years of the 30 year projections all assumptions remain the same as outlined in the MTFS assumption table with the long term view that inflation will be consistent from years 6 to 30 (remaining 24 years of the projections) at 2% per annum for income and expenditure.
- 2.11 A sensitivity analysis has been run against the 30 year plan to assess the impact of the potential for a 10 year rent settlement to be proposed. This could mean that rents could be increased by CPI+1% from year 6 to 10 of the 30 year plan. With all other assumptions remaining the same this would reduce the 30 year deficit to c.£69m but would not have any benefit for the 5 year plan.
- 2.12 This is a snapshot based on the 2025/26 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 Council or Cabinet approval. This means that future pipeline projects and the LPS options where any Cabinet approval has yet to be given are not included in the projections.
- 2.13 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 upon and only 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.

	Years 1-5	Years 6-10	Years 11-20	Years 21-30	Total
	£'000	£'000	£'000	£'000	£'000
<b>Revenue Expenditure</b>					
Management & Service Costs	151,258	167,743	387,409	468,591	<b>1,175,001</b>
Repairs and Maintenance	112,012	124,194	285,007	341,790	<b>863,003</b>
Other Costs	11,685	8,071	18,749	22,855	<b>61,360</b>

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Borrowing costs	91,825	137,605	330,302	397,846	<b>957,578</b>
Major Repairs Reserve	85,602	94,511	219,555	267,637	<b>667,305</b>
<b>Total Revenue Expenditure</b>	<b>452,382</b>	<b>532,124</b>	<b>1,241,022</b>	<b>1,498,719</b>	<b>3,724,247</b>
<b>Income</b>					
Rental Income	(390,153)	(448,773)	(1,030,627)	(1,237,052)	<b>(3,106,605)</b>
Service Charges (Tenants)	(27,172)	(29,847)	(68,852)	(83,147)	<b>(209,018)</b>
Other Income	(25,316)	(28,406)	(67,265)	(84,034)	<b>(205,021)</b>
<b>Total Income</b>	<b>(442,641)</b>	<b>(507,026)</b>	<b>(1,166,744)</b>	<b>(1,404,233)</b>	<b>(3,520,644)</b>
Contribution (from) / to reserves	(893)				<b>(893)</b>
<b>Net Revenue (surplus) / deficit</b>	<b>8,858</b>	<b>25,098</b>	<b>74,278</b>	<b>94,486</b>	<b>202,710</b>

	Years 1-5	Years 6-10	Years 11-20	Years 21-30	Total
	£'000	£'000	£'000	£'000	£'000
<b>Capital Expenditure</b>					
Capital Investment programme	296,688	176,075	363,772	329,791	<b>1,166,326</b>
Development	183,252	-	-	-	<b>183,252</b>
<b>Total Expenditure</b>	<b>479,940</b>	<b>176,075</b>	<b>363,772</b>	<b>329,791</b>	<b>1,349,578</b>
<b>Funded By:</b>					
Other Capital Income	(62,217)	-	-	-	<b>(62,217)</b>
New Capital Borrowing	(332,122)	(81,564)	(144,217)	(92,247)	<b>(650,150)</b>
Major Repairs Reserve	(85,601)	(94,511)	(219,555)	(237,544)	<b>(637,211)</b>
<b>Total Capital Funding</b>	<b>(479,940)</b>	<b>(176,075)</b>	<b>(363,772)</b>	<b>(329,791)</b>	<b>(1,349,578)</b>