

Updated Medium-Term Financial Plan 2022/23 to 2026/27

**HOUSING REVENUE ACCOUNT**

*October 2021*

**1. Background**

1.1 The preparation of a Medium-Term Financial Plan (MTFP) provides the cornerstone on which the Council can build and deliver services in accordance with the aims and objectives outlined in the Corporate Plan 2018-2023, which are grouped under the three corporate ambitions:

- Stronger Communities
- Stronger Place; and
- Stronger Council.

1.2 The Housing Revenue Account (HRA) embraces both the Communities and Place ambitions to an extent, although the Council has a very clear vision as to where the HRA fits as an integral part of a Stronger Place, which is underpinned by specific aims and objectives, including:

- Aim – *delivering effective core services that people want; and*
- Objective – *improving the district housing offer.*

1.3 Through ‘horizon scanning’ and anticipating necessary change at the earliest opportunity, resilience and the ability to react to and withstand ‘major shocks’ is achieved. Above all, a robust MTFP for the HRA is also critical to achieving compliance with the Council’s legal duty under the Local Government Housing Act 1989 to “maintain a balanced account” and ultimately long-term financial sustainability.

**2. Introduction**

2.1 This is the first iteration of the MTFP for the HRA in the 2022/23 budget cycle. It is a forward-looking document which provides a tentative look at the Council’s HRA picture over the next five years (2022/23 to 2026/27) and re-evaluates the position in the light of developments since the 2021/22 Budget was adopted by the Council in February 2021. Exceptionally, in the light of emerging intelligence from the ongoing HRA Business Plan review, a revised budget for the remainder of 2021/22 is proposed.

2.2 As reported to Members in February 2021, the HRA Business Plan (which underpins final planning on the HRA) has been subjected to a detailed review, which commenced in the spring of 2021. The Council’s current 30-Year Business Plan was adopted by the Council in 2018, immediately prior to the Government announcement removing the HRA Borrowing Cap. This has led to a more expansive approach by the Council with Housing Development at its heart.

2.3 A new Business Plan is being designed to support the Council in its current ambitions for Housing, whilst ensuring the long-term financial sustainability of the HRA. It is a detailed undertaking, with the initial results of that exercise, having been used to develop this iteration of the MTFP.

2.4 The MTFP is deliberately concise, focussing on the most significant HRA-related financial issues faced by Epping Forest District Council over the medium-term. Key challenges faced by the HRA over the medium term include the financing of an ambitious Housing Development whilst, maintaining and improving existing Housing Stock. In addition, the Council has been managing some financial pressure on the cost of Housing Repairs, with (demand-led) Void Repairs having been a stubborn problem in recent years.

### **3. Financial Projections**

#### **3.1 2021/22 Budget Adjustments**

3.1.1 The starting point for developing the MTFP is the current budget. The 2021/22 HRA budget was approved by the Council on 25th February 2021. It was a balanced budget comprising Net Operating Income of £1.793 million.

3.1.2 In order to develop the MTFP for 2022/23 to 2026/27, it is important to represent the original 2021/22 budget. This requires some small adjustments in two categories:

- Notional Accounting Adjustments – specifically, these relate to “IAS19” Pensions adjustments, which are reversed out and required for technically accounting purposes only; and
- Business Plan Adjustments – the early results of the review have identified a need to make a limited number of adjustments based upon some changes to capital financing assumptions, relating especially to the re-profiled Housing Development programme (presented elsewhere on this agenda) and the use of the Major Repairs Reserve.

3.1.3 The impact on the budget is presented in the table below.

## Appendix B

<b>2021/22 Budget: HRA</b>				
	<b>Opening Budget (Council 25/02/21)</b>	<b>IAS19 Adjustments</b>	<b>Business Plan Adjustments</b>	<b>Adjusted Budget 1st October 2021</b>
	<b>£'s</b>	<b>£'s</b>	<b>£'s</b>	<b>£'s</b>
Employees	4,959,471	- 563,428	-	4,396,043
Premises	3,320,015	-	-	3,320,015
Transport	67,602	-	-	67,602
Supplies & Services	821,663	35,710	-	857,373
Contracted Services	5,987,144	-	-	5,987,144
Support Services (GF Recharges)	3,988,330	-	-	3,988,330
Debt Management Expenses	56,500	-	-	56,500
Bad Debt Provision	91,000	-	2,000	89,000
Depreciation	8,782,000	-	-	8,782,000
<b>Total Expenditure</b>	<b>28,073,725</b>	<b>- 527,718</b>	<b>- 2,000</b>	<b>27,544,007</b>
Rental Income - Dwellings	- 33,349,344	-	77,656	- 33,427,000
Rental Income - Non-Dwellings	- 809,512	-	-	- 809,512
Fees and Charges (Charges for Services)	- 2,092,091	-	-	- 2,092,091
Other Contributions (Shared Amenities)	- 357,000	-	-	- 357,000
<b>Total Income</b>	<b>- 36,607,947</b>	<b>-</b>	<b>- 77,656</b>	<b>- 36,685,603</b>
<b>Net Cost of Service</b>	<b>- 8,534,222</b>	<b>- 527,718</b>	<b>- 79,656</b>	<b>- 9,141,596</b>
Interest Received	- 36,060	-	6,060	- 30,000
Financing Costs	6,125,000	-	387,000	5,738,000
Pension Interest / Return on Assets	652,000	- 652,000	-	-
<b>Net Operating Income</b>	<b>- 1,793,282</b>	<b>- 1,179,718</b>	<b>- 460,596</b>	<b>- 3,433,596</b>
<b>Appropriations:</b>				
IAS 19 Pension Adjustment	- 1,179,718	1,179,718	-	-
HRA Contribution to Capital	2,973,000	-	- 2,190,000	783,000
Contribution to/(from) Reserves				
<b>Total Appropriations</b>	<b>1,793,282</b>	<b>1,179,718</b>	<b>-2,190,000</b>	<b>783,000</b>
<b>In-Year (Surplus)/Deficit</b>	<b>0</b>			<b>-2,650,596</b>

3.1.4 The table above shows that (ignoring actual net spending in the year) the 2021/22 budget will record a surplus of £2.650 million due to the reduced need for Revenue Contributions to Capital; this will be used to help fund the 2022/23 Capital Programme (instead of 2021/22).

### 3.2 Medium-Term Financial Plan

3.2.1 The Adjusted Budget described in Section 3.1 above, has been used as the baseline for producing the MTFP for 2022/23 to 2026/27. The outcome is summarised in the table below.

Housing Revenue Account MTFP (@ October 2021)						
Description	Adjusted Budget	Estimated Budget	Estimated Budget	Estimated Budget	Estimated Budget	Estimated Budget
	1st October 2021	Requirement 2022/23	Requirement 2023/24	Requirement 2024/25	Requirement 2025/26	Requirement 2026/27
	£'s	£'s	£'s	£'s	£'s	£'s
Employees	4,396,043	4,455,088	4,617,540	4,783,668	4,927,179	5,074,994
Premises	3,320,015	3,456,809	3,525,945	3,596,464	3,668,393	3,741,761
Transport	67,602	68,954	70,333	71,740	73,175	74,638
Supplies & Services	857,373	943,166	962,030	981,270	1,000,896	1,020,914
Contracted Services	5,987,144	6,106,887	6,229,025	6,353,605	5,532,804	5,670,838
Support Services (GF Recharges)	3,988,330	4,578,097	4,697,128	4,819,253	4,944,554	5,069,855
Debt Management Expenses	56,500	58,000	59,000	60,000	61,000	62,000
Bad Debt Provision	89,000	92,000	97,000	102,000	108,000	109,000
Depreciation	8,782,000	8,958,000	9,137,000	9,320,000	9,506,000	9,696,000
<b>Total Expenditure</b>	<b>27,544,007</b>	<b>28,717,000</b>	<b>29,395,000</b>	<b>30,088,000</b>	<b>29,822,000</b>	<b>30,520,000</b>
Rental Income - Dwellings	- 33,427,000	- 34,883,000	- 36,844,000	- 38,763,000	- 40,934,000	- 41,405,000
Rental Income - Non-Dwellings	- 809,512	- 827,000	- 843,000	- 860,000	- 877,000	- 895,000
Fees and Charges (Charges for Services)	- 2,092,091	- 1,500,000	- 1,530,000	- 1,560,000	- 1,592,000	- 1,623,000
Other Contributions (Shared Amenities)	- 357,000	- 364,000	- 371,000	- 379,000	- 386,000	- 394,000
<b>Total Income</b>	<b>- 36,685,603</b>	<b>- 37,574,000</b>	<b>- 39,588,000</b>	<b>- 41,562,000</b>	<b>- 43,789,000</b>	<b>- 44,317,000</b>
<b>Net Cost of Service</b>	<b>- 9,141,596</b>	<b>- 8,857,000</b>	<b>- 10,193,000</b>	<b>- 11,474,000</b>	<b>- 13,967,000</b>	<b>- 13,797,000</b>
Interest Received	- 30,000	- 4,000	- 2,000	- 1,000	-	- 3,000
Financing Costs	5,738,000	5,595,000	6,186,000	6,730,000	6,952,000	6,991,000
<b>Net Operating Income</b>	<b>- 3,433,596</b>	<b>- 3,266,000</b>	<b>- 4,009,000</b>	<b>- 4,745,000</b>	<b>- 7,015,000</b>	<b>- 6,809,000</b>
<b>Appropriations:</b>						
HRA Contribution to Capital	783,000	6,021,000	4,011,000	4,745,000	7,017,000	4,891,000
Contribution to/(from) Reserves	0	0	0	0	0	0
<b>Total Appropriations</b>	<b>783,000</b>	<b>6,021,000</b>	<b>4,011,000</b>	<b>4,745,000</b>	<b>7,017,000</b>	<b>4,891,000</b>
<b>In-Year (Surplus)/Deficit</b>	<b>- 2,650,596</b>	<b>2,755,000</b>	<b>2,000</b>	<b>0</b>	<b>2,000</b>	<b>- 1,918,000</b>

3.2.2 There are a range of issues and assumptions underpinning the position presented in the table. These include:

- ***Inflation*** – consistency with the General Fund has been applied to inflationary assumptions (e.g. through a core 2.0% increase on expenditure). On Housing Rents, a 3.0% rent increase has been assumed throughout in accordance with the Rent Standard (Inflation + 1%); that assumption will be refined upon release of the September 2021 CPI rate. It should also be noted that 2025/26 is a 53 Week Rent Year, thus providing additional income
- ***Increased Budget Demand*** – in addition to inflation, some other miscellaneous budget pressures are embedded within the MTFP. Of immediate concern is lost income from the “Telecare” service (£268,740 in 2022/23 base budget), which is

now a free service provided by Essex County Council (this is currently impacting on the 2021/22 budget); and

- (Reduced) Budget Demand – there are also some positives to note. The development of the new HRA Business Plan has identified some improved assumptions for rental income (e.g. with new properties coming into the portfolio). It is also worth noting an assumed saving of £900,000 in the base budget for Housing Repairs with effect from 2025/26 (one of the deliverables included in the Qualis initiative).

3.2.3 It can be seen from the table that a deficit of £2.755 million is revealed in 2022/23, following an initial surplus of £2.651 million in 2021/22 (described above in Paragraph 3.1.4). The surplus virtually matches the deficit, so achieves stability over the two-year period.

3.2.4 The table also shows a relatively stable position from 2023/24 onwards, with a surplus of £1.918 million anticipated in 2016/17.

### 3.3 HRA Business Plan (“Fortress”)

3.3.1 The HRA Subsidy Determination 2011/12 introduced 30-year modelling for the first time as part of the move to the ‘self-financing’ regime for local authority housing in April 2012, with councils (who retained a housing stock) taking on debt in lieu of making subsidy payments to the Government.

3.3.2 As noted above in Paragraph 2.2, the Council’s existing 30-Year Business Plan, which assumes the repayment of debt in full, is now obsolete and does not support current Housing Development plans. The development of an updated Plan is therefore a priority and to that end, the Council is utilising “Fortress”.

3.3.3 The Fortress model is a forecasting and stress-testing HRA Business Plan model that provides local authorities with business plan results derived from the Council’s own housing data, with the ability to overlay scenarios and test sensitivity to change.

3.3.4 In simple terms, an HRA Business Plan considers the timing and expected amount of all sources of income and expenditure (both revenue and capital) in the HRA over a period of up to 40 years and, given a range of economic factors, will predict whether:

- The HRA can repay its loans as they fall due; and
- The HRA maintains a minimum level of revenue balances over the life of the plan.

3.3.5 The model takes account of the investment required to manage and maintain existing housing stock as well as that required to build and maintain new development. It can forecast likely income that from RTB sales and predict whether 1-4-1 receipts can be fully utilised within Government deadlines. It can also forecast the need for, and affordability of, additional borrowing to support the Capital Programme and other aspirational plans.

3.3.6 Once the Council’s HRA Business Plan has been agreed, Fortress can be used extensively for the purposes of scenario planning encompassing a range of “what ifs” about a wide range of economic factors.

- 3.3.7 Populating the model is a substantial undertaking, with a vast range of inputs required from budgets, reserves and loans, through to stock numbers, rent information and Housing Development plans. The Rent Module is especially comprehensive with the rent basis for all 6,382 social and affordable rented properties loaded into the model; the exercise has already flagged a range of anomalies that are being targeted for future improvement, which will increase technical compliance and drive additional income.
- 3.3.8 The Housing team are currently preparing more granular detail on the phasing of the Capital Works programme, which will allow further refinement of the figures. Of greater significance is the Stock Condition Survey which is currently in progress; once complete, the exercise will enhance the accuracy of the outputs from the model and will also enable the Plan to be extended from 30 to 40 years.
- 3.3.9 It is possible at this stage to draw some early conclusions. Based on current data on development and stock condition profiling, the HRA Business Plan should:
- Maintain the existing housing stock in accordance with lifecycle replacement costs (caveat – but the new Stock Condition Survey may provide different results), subject to smoothing of expected works over 2022/23, 2023/24 and 2024/25; and
  - Deliver a mixture of affordable rent and shared ownership properties by 2025/26, including:
    - New Build Properties (212 affordable rent units); and
    - Qualis Acquisitions (22 shared ownership, and 67 affordable rent units).
- 3.3.10 This can be achieved whilst maintaining a minimum HRA revenue balance of £2.0 million over 30 years, although to achieve the development programme, further borrowing will be needed to supplement the use of capital receipts, grants, 1-4-1 replacement receipts and revenue contributions. The plan will also require future loan refinancing to fund repayments totalling £120.0 million as they fall due. Borrowing is minimised through a range of measures including the use of the earmarked Self-Financing Reserve (£12.720 million as at 31/03/21) and the Major Repairs Reserve (£8.840 million as at 31/03/21). Peak debt of £240.980 million is forecast in Year 20.
- 3.3.11 Upon completion of detailed refinements, including further consultation with our Treasury Management advisors, Arlingclose and the incorporation of the results from the Stock Condition Survey, a new (40-Year) HRA Business Plan will be formally prepared and presented to scrutiny before proceeding to Cabinet for approval.