

Updated Medium-Term Financial Plan 2023/24 to 2027/28

HOUSING REVENUE ACCOUNT

October 2022

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 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 2023/24 budget cycle. It is a forward-looking document which provides a tentative look at the HRA picture over the next five years (2023/24 to 2027/28) and re-evaluates the position in the light of developments since the 2022/23 Budget was adopted by the Council in February 2022.

2.2 The February 2022 (HRA) MTFP revealed a sustainable position over the medium-term, with an eventual surplus of £1.275 million emerging in 2026/27. The projections can be summarised as follows:

Financial Year	(Surplus)/Deficit	Comment
	£000's	
2022/23	3,537	Planned deficit (offset by planned surplus in 2021/22).
2023/24	4	
2024/25	1	
2025/26	2	Assumed £900,000 saving from Qualis re Housing Repairs.
2026/27	(1,275)	

2.3 The MTFP is deliberately concise, focussing on the most significant HRA-related financial issues faced by Epping Forest District Council over the medium-term.

3. Financial Projections

3.1 Current Spending Levels

3.1.1 The starting point for developing the MTFP is the current level of spending. The 2022/23 HRA base budget was adopted approved by the Council on 24th February 2022 and can be summarised as follows:

HRA Revenue Budget 2022/23	
Description	2022/23 Budget
	£'s
Employees	4,385,465
Premises	3,593,523
Transport	69,689
Supplies & Services	1,607,559
Contracted Services	6,683,090
Support Services (General Fund Recharges)	5,224,665
Debt Management Expenses	58,000
Bad Debt Provision	93,000
Depreciation	8,958,000
Total Expenditure	30,673,000
Rental Income – Dwellings	(35,124,000)
Rental Income – Non-Dwellings	(836,000)
Fees & Charges (Charges for Services)	(1,779,000)
Other Contributions (Shred Amenities)	(368,000)
Total Income	(38,107,000)
Net Cost of Services	(7,434,000)
Interest Receivable	(6,000)
Financing Costs	5,613,000
Net Operating Income	(1,827,000)
HRA Contribution to Capital	5,364,000
In-Year (Surplus)/Deficit*	3,537,000

*Base budget excludes approved rollover of £140,000 from 2021/22 re "More than Bricks and Mortar" project

3.2 Updated Projections

3.2.1 The February 2022 MTFP (HRA element) has now been reviewed and updated, incorporating the experience of the 2022/23 financial year to date (up to 30/09/22) and other emerging intelligence; the updated MTFP also rolls forward into 2023/24, spanning a further five years up to, and including, 2027/28. Specific factors considered include:

- Rent Increases
- Inflation
- Interest Rates
- Budget Growth; and
- HRA Recharges.

Rent Increases

3.2.2 An increase in Rent of 5.0% has been assumed at this stage. This is well below the established Rent Standard (September CPI + 1.0%), and reflects the Government's recent consultation published on 31st August 2022, which proposes the introduction of temporary capping on rent increases (at either 3.0%, 5.0% or 7.0%). Members of course have to option to choose a different Rent Increase, provided it does not breach the eventual rent cap, once adopted. A further Rent increase of 5.0% is assumed for 2024/25, followed by 3.0% from 2025/26 onwards. In addition, a '53-Week Rent Year' is anticipated in 2025/26, thus providing additional income in that year only.

Inflation

3.2.3 A range of inflationary pressures are now affecting the HRA and are expected to continue during 2023/24, eventually receding during 2024/25 before settling back down much closer to the Bank of England's long-term inflation target of 2.0% in 2025/26:

- **Pay** – estimated pay inflation of 4.0% has been assumed in 2023/24, reducing to 3.0% in 2024/25, and 2.0% in 2025/26 and beyond (as inflation pressure eventually recedes). However, an initial stepped increase in Employee costs is expected in 2023/24 due to the need to address an expected shortfall of around 3.0% in the 2022/23 base budget, before inflation of 4.0% for 2023/24 can be added. Pay inflation is expected to reduce to 3.0% in 2024/25, and 2.0% thereafter (2025/26 onwards)
- **Energy** – a detailed review of Gas and Electricity costs has been undertaken by Property Services officers. This has factored in the expiry of the Forward Energy Contracts that the Council has benefited from in 2022/23, and the latest protections afforded by the Energy Bill Relief Scheme (EBRS) recently announced by the Government and effective for six months with effect from 1st October 2022. Energy inflation is then expected to reduce to 5.0% in 2024/25 and 2.0% thereafter (2025/26 onwards). Premises costs are expected to rise by £0.855 million in 2023/24 as a consequence; and
- **General** – A generic assumption of 12.0% inflation has been assumed for Premises (excluding Energy costs), Transport, Supplies & Services and Fees & Charges for 2023/24. General inflation is then expected to reduce to 5.0% in 2024/25 and 2.0% thereafter (2025/26 onwards). The base contract for Housing Repairs is assumed frozen, although general inflation provisions of 5.0% (2023/24), 5.0% (2024/25) and 2.0% (2025/26 onwards) have been assumed for items falling outside the contract. An 11.0% increase in the HRA element of the Biffa Waste Contract is assumed from November 2022 (followed by 5.0% in 2024/25, and 2.0% in 2025/26).

Interest Rates

3.2.4 The latest available Bank Rate projections supplied by our Treasury Management Advisors, Arlingclose (@ 26th September 2022) have been used to estimate future Financing costs within the MTFP. A borrowing rate of 5.0% has been assumed for 2023/24 and 2024/25, reducing to 3.5% in 2025/26, followed by 3.0% thereafter (2026/27 onwards).

Budget Growth

3.2.5 As with the General Fund, the financial position dictates that only *unavoidable* Growth items are included at this stage. The most notable item is the inclusion of an additional £1.0 million in respect of Gas and Minor Remedial Works. Recent regulatory changes require the frequency of Gas Testing to increase from 10-yearly to 5-yearly intervals. Moving forwards, such expenditure will also be charged to revenue in accordance with proper accounting practice. Combined with Energy costs, this is a major contributor to an increase of £2.63 million (73%) in Premises costs in 2023/24.

Recharges

3.2.6 Staff-related costs are the most prevalent General Fund Recharge; an increase of 4% has therefore been assumed for 2023/24 (thus mirroring the most recently established average pay award in the General Fund). Increases for 2024/25 onwards mirror the Pay Inflation assumptions noted above (in Paragraph 3.2.3).

Other

3.2.7 As previously reported, an assumed saving of £900,000 is in the base budget for Housing Repairs with effect from 2025/26 (one of the deliverables included in the Qualis initiative) and remains unchanged.

3.3 Updated MTFP Summary (October 2022)

3.3.1 The updated HRA MTFP is summarised in the table below.

Updated HRA Medium-Term Financial Plan (@ October 2022)						
Description	2022/23 BUDGET/ BASELINE	2023/24 BUDGET STRATEGY	2024/25	2025/26	2026/27	2027/28
	£000's	£000's	£000's	£000's	£000's	£000's
Employees	4,385	4,878	4,991	5,076	5,177	5,281
Premises	3,594	6,224	6,665	6,819	6,989	7,128
Transport	70	78	82	84	85	87
Supplies & Services	1,608	1,347	1,199	1,427	1,129	1,152
Contracted Services	6,683	7,360	7,829	7,088	7,229	7,374
Support Services	5,225	5,479	5,644	5,769	5,894	6,012
Debt Management Expenses	58	65	69	70	71	73
Bad Debt Provision	93	97	105	106	108	112
Depreciation	8,958	9,137	9,320	9,506	9,696	9,890
Total Expenditure	30,673	34,666	35,904	35,944	36,379	37,109
Rental Income – Dwellings	(35,124)	(36,764)	(39,606)	(40,268)	(41,384)	(42,662)
Rental Income – Non- Dwellings	(836)	(936)	(983)	(1,002)	(1,022)	(1,043)
Fees & Charges (Charges for Services)	(1,779)	(2,983)	(3,133)	(3,196)	(3,290)	(3,339)
Other Contributions (Shared Amenities)	(368)	(383)	(393)	(401)	(409)	(417)
Total Income	(38,107)	(41,066)	(44,115)	(44,867)	(46,105)	(47,461)
Net Cost of Services	(7,434)	(6,400)	(8,211)	(8,923)	(9,726)	(10,352)
Interest Receivable	(6)	(8)	(7)	(5)	(4)	(3)
Financing Costs	5,613	5,686	7,477	8,735	9,319	9,768
Net Operating Income	(1,827)	(722)	(741)	(193)	(411)	(587)
HRA Contribution to Capital	5,364	40	957	489	540	713
In-Year (Surplus)/Deficit	3,537	(682)	216	296	129	126

- 3.3.2 The table above shows a broadly balanced position over the five-year period 2023/24 to 2027/28, with an initial surplus of £0.682 million anticipated in 2023/24, followed by a series of smaller deficits (totalling £0.767 million). However, this is achieved through substantially reining back HRA Contributions to Capital in order to maintain a minimum HRA balance of £2.0 million as determined in the HRA Business Plan. This drives up the need for external borrowing to fund the Housing Development Programme and is reflected in a stepped increase in Financing Costs from 2024/25 onwards.
- 3.3.3 The assumptions presented above have been fed into the “Fortress” (HRA Business Plan) model to determine the long-term impacts on financial sustainability of such a strategy. Critically, the initial results show that by Year 11 (2033/34) the HRA Business Plan begins to become increasingly unviable with the increasing servicing costs of rising borrowing leading to some breaches of pre-set parameters, including the minimum HRA balance of £2.0 million and a target interest cover level of 1.25%.
- 3.3.4 The primary cause of the problem is the current imbalance between a capped Rent Increase of 5.0% assumed for 2023/24 and 2024/25, sharply rising Interest Rates and high General Inflation (assumed to be as high as 12.0% initially).
- 3.3.5 Officers will now undertake detailed analyses of all relevant factors assumed in the Fortress model, including reviewing the current HRA Capital Programme, to see how the strategy can be amended to restore long-term financial sustainability. This will identify the options available to Members in considering the draft Budget for 2023/24 in December 2022, including a revised MTFP.