

Updated Medium-Term Financial Plan 2024/25 to 2028/29

HOUSING REVENUE ACCOUNT*October 2023***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 2023-2027 (“Your Epping Forest”), 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.

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 2024/25 budget cycle. It is a forward-looking document which provides a tentative look at the HRA picture over the next five years (2024/25 to 2028/29) and re-evaluates the position in the light of developments since the 2023/24 Budget was adopted by the Council in February 2023.

2.2 The February 2023 (HRA) MTFP revealed a stable position, with a breakeven position projected over the 5-year period 2023/24 through to 2027/28. The projections can be summarised as follows:

Financial Year	(Surplus)/Deficit	Comment
	£000’s	
2023/24	(364)	Planned surplus.
2024/25	25	
2025/26	295	Assumed £900,000 saving from Qualis re Housing Repairs.
2026/27	4	
2027/28	70	

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 2023/24 HRA base budget was approved by the Council on 28th February 2023 and can be summarised as follows:

HRA Revenue Budget 2023/24	
Description	£'s
Employees	5,013,440
Premises	6,218,330
Transport	78,060
Supplies & Services	1,402,060
Contracted Services	7,197,660
Support Services (General Fund Recharges)	4,984,450
Debt Management Expenses	65,000
Bad Debt Provision	99,000
Depreciation	9,137,000
Total Expenditure	34,195,000
Rental Income – Dwellings	(37,419,000)
Rental Income – Non-Dwellings	(936,000)
Fees & Charges (Charges for Services)	(2,793,000)
Other Contributions (Shred Amenities)	(383,000)
Total Income	(41,531,000)
Net Cost of Services	(7,336,000)
Interest Receivable	(8,000)
Financing Costs	5,616,000
Net Operating Income	(1,728,000)
HRA Contribution to Capital	1,364,000
In-Year (Surplus)/Deficit	(364,000)

3.2 Updated Projections

3.2.1 The February 2023 MTFP (HRA element) has now been reviewed and updated, incorporating the experience of the 2023/24 financial year to date (up to 30/09/23) and other emerging intelligence; the updated MTFP also rolls forward into 2024/25, spanning a further five years up to, and including, 2028/29. Specific factors considered include:

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

Rent Increases

3.2.2 An increase in Rent of 7.0% has been assumed at this stage. This is expected to be close to the established Rent Standard (September CPI + 1.0%) with August 2023 CPI reported at 6.7% (the latest available information at the time of preparing this report). Although it does seem possible (indeed likely) that the September 2023 CPI rate could marginally exceed 6.0%, which would – technically – imply a higher rent increase than 7.0%, it is assumed that the Government would not allow an increase higher than 7.0% (which was the rent cap set for 2023/24, in the context of significantly higher inflation). The Rent Standard is assumed to be applied as normal from 2025/26 onwards (with a core inflation assumption of 2.0%, resulting in annual increases of 3.0%).

Inflation

3.2.3 As with the General Fund, the inflationary pressures affecting the HRA are gradually receding, with the Bank of England's long-term inflation target of 2.0% expected to be met in late 2024/early 2025:

- **Pay** – estimated pay inflation of 3.0% has been assumed in 2024/25, reducing to 2.0% in 2025/26 and remaining at that level thereafter. However, it should be noted that an additional 1.0% increase in Employee costs is required in the 2024/25 budget to address the anticipated budget shortfall for 2023/24 (it is currently assumed that the pay award for 2023/24 will be settled at 5.0%, whereas the budget assumption for 2023/24 was 4.0%)
- **Premises** – a tailored approach has been applied to Premises costs (e.g., this includes an additional £53,000 for Asbestos Surveys, which are now required annually). All other costs are assumed to follow the general inflation rate for now. Energy cost estimates will be subject to further refinement before the draft Budget is presented to Cabinet in December 2023.
- **Housing Repairs** – as with Premises, a tailored approach has been adopted, with general Housing Repairs assumed to increase by 6.0% (£172,640) and Voids (£52,530) by 3.0%, reflecting the estimated budget requirement for 2024/25; and
- **General** – A generic assumption of 3.5% inflation has been assumed for Premises (excluding Energy costs), Transport and Supplies & Services. General inflation is then expected to reduce to 2.0% in 2025/26 onwards, which is reflected in the estimates.

Interest Rates

3.2.4 The latest available Bank Rate projections supplied by our Treasury Management advisors have been used to estimate future Financing costs within the MTFP. A borrowing rate of 4.8% has been assumed for 2024/25, reducing to 3.4% in 2025/26, followed by 2.8% 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. Notable unavoidable items include the Premises and Housing Repairs pressures described above in Paragraph 3.2.3, along with a net reduction in cost pressures for 2024/25 of £270,320 arising from miscellaneous items, including a £149,840 reduction in the “HAM” project consultancy budget.

HRA Recharges

3.2.6 Staff-related costs are the most prevalent General Fund Recharge; an increase of 4.0% (the assumed 2024/25 pay award of 3.0%, plus 1.0% to address estimated shortfall in base budget due to assumed 2023/24 pay award of 5.0% as explained above in Paragraph 3.2.3). Increases for 2025/26 onwards mirror the Pay Inflation assumptions noted above (in Paragraph 3.2.3). There is also an additional stepped increase (a credit from the General Fund to the HRA) of £360,000 in respect of additional interest due on HRA balances following the recent rises in interest rates.

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 2023)

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

Updated HRA Medium-Term Financial Plan (@ October 2023)						
Description	2023/24 BUDGET/ BASELINE	2024/25 BUDGET STRATEGY	2025/26	2026/27	2027/28	2028/29
	£000's	£000's	£000's	£000's	£000's	£000's
Employees	5,013	5,208	5,312	5,419	5,527	5,638
Premises	6,218	6,691	6,823	7,033	7,714	7,314
Transport	78	81	82	84	86	87
Supplies & Services	1,402	1,183	1,199	1,019	1,039	1,264
Contracted Services	7,198	7,856	7,463	7,612	7,764	7,917
Support Services	4,985	4,851	4,948	5,047	5,148	5,250
Debt Management Expenses	65	68	69	70	72	73
Bad Debt Provision	99	108	109	113	116	120
Depreciation	9,137	10,700	10,914	11,132	11,355	11,582
Total Expenditure	34,195	36,746	36,919	37,528	38,280	39,245
Rental Income – Dwellings	(37,419)	(40,894)	(41,360)	(42,673)	(44,082)	(45,482)
Rental Income – Non-Dwellings	(936)	(992)	(1,012)	(1,032)	(1,053)	(1,074)
Fees & Charges (Charges for Services)	(2,793)	(3,032)	(3,104)	(3,176)	(3,313)	(3,367)
Other Contributions (Shared Amenities)	(383)	(394)	(402)	(410)	(418)	(427)
Total Income	(41,531)	(45,267)	(45,878)	(47,291)	(48,866)	(50,350)
Net Cost of Services	(7,336)	(8,521)	(8,959)	(9,763)	(10,586)	(11,105)
Interest Receivable	(8)	(226)	(335)	(180)	(178)	(175)
Financing Costs	5,616	6,476	7,655	8,277	8,606	9,541
Net Operating Income	(1,728)	(2,271)	(1,639)	(1,666)	(2,158)	(1,739)
HRA Contribution to Capital	1,364	2,256	2,371	2,198	2,160	1,741
In-Year (Surplus)/Deficit	(364)	(15)	732	532	2	2

3.3.2 The table above shows the HRA beginning with a small Surplus in 2024/25, followed by two planned deficits in 2025/26 (£732,000) and 2026/27 (£532,000), before coming back into balance for 2027/28 and 2028/29. It should be noted that the HRA balance can comfortably withstand the planned deficits (e.g., as reported to Cabinet on 18th September 2023, the projected balance on the HRA for March 2024 was £4.438 million, which is more than double the adopted minimum of £2.0 million).