Appendix C: HRA 30-Year Business Plan 2025/26

HRA 30-Year Business Plan 2025/26

1 HRA 30-Year Business Plan Review

1.1 The HRA 30-Year Business Plan (the Business Plan) is updated on an annual basis alongside the budget setting process. This is to ensure that any changing assumptions do not adversely affect the ongoing concern of the business. This review also ensures that significant programmes of work (e.g. within the capital programme) are still viable and affordable. This gives the business the opportunity to flex the delivery of these schemes within the Medium Term Financial Plan (MTFP) on an annual basis to improve the financial operating position of the business.

1.2 The Business Plan has been updated to reflect the Budget Estimates for 2025/26 as well as updated assumptions surrounding the current economic operating environment. These updates have been reviewed by an independent financial housing advisor, Altair (Housing Finance Associates Ltd).

1.3 **Baseline Summary:** The assumptions contained within the updated Business Plan presents a baseline position that includes a 5-year programme of works on decarbonisation and social housing development schemes. The projections show that levels of debt increase in the first five years to pay for the 5-year capital programme with absolute minimal interest cover (at 100%) achieved and no headroom for any additional borrowing and / or increase in the cost of borrowing. The position then starts to improve with the ability to repay minimal levels of debt towards the middle of the period and interest cover improving significantly. However, this is not sustainable, and debt continues to rise again to £326m and interest cover starts to drop towards the end of the period. The key performance measures described below provide more explanation on this.

1.4 The **scenarios** undertaken indicate that the Council's HRA does not have the financial capacity to (after 2029/30) continue the capital investment required for full decarbonisation of its existing stock, even if the Council could secure 50% external funding. There is some financial capacity to extend the new build programme for a further 5 years (after 2029/30) though at the risk of reducing its ability to respond to unforeseen financial circumstances.

1.5 The **sensitivity tests** indicate that the HRA is sensitive to the economic operating environment e.g. increases in building costs and / or increase in interest rates. The Council will need to review and update its modelling assumptions regularly to ensure that exposure to interest cover risk (affordability to finance its debts) is understood and remains manageable.

1.6 It is recommended that the Council takes a long-term view when making short- and medium-term decisions about the HRA.

1.7 **Potential Options for Mitigation:** The Council needs to consider options to safeguard the long-term financial sustainability of its HRA and to provide financial capacity for capital investment. Considerations include:

(a) resolving gaps in the underlying data particularly with regards stock data

to improve the long-term stock investment requirements,

(b) minimise ongoing operating costs and maximising income,

(c) making a case to the Government for additional resources to help finance the cost of decarbonisation.

Key Assumptions and Main Changes

1.8 In summary, the key assumptions and projections are as follows:

- Revenue Budget Estimates for 2025/26
- Capital Programme for 2025/26 to 2029/30
- Stock investment at £0.050m per unit to maintain its existing housing stock
- Investment in stock to achieve EPC C by 2030
- Decarbonisation works included as per the Social Housing Decarbonisation Fund Wave 3 with 50% funding until 2028/29, with no allowance for decarbonisation works thereafter
- Social housing development programme for 2025/26 to 2030/31
- Underlying inflation assumptions with Consumer Price Index (CPI) at 2.75% for 2026/27, 2.25% for 2027/28 and 1.75 for 2028/29 (Bank of England Monetary Policy from November 2024) and 2% from 2029/30 onwards (long term HM Treasury Target)
- Dwelling Rent increases assumed of 2.7% in 2025/26 and CPI +1% from 2026/27 to 2030/31, and then CPI only from 2031/32 thereafter
- New tenancies relet at Formula Rent plus Rent Flex
- Void loss at an average of 1.86% of gross rental income from 2025/26
- Interest on new debt at 4.6% for 2024/25 and 2025/26, 5.00% for 2026/27 to 2029/30 and 4.0% from 2030/31 onwards
- RTB Sales of 25 per annum in 2024/25 and 2025/26, before dropping to 19 per annum from 2026/27 with an average sale value of £0.100m
- Capital receipts from open market sales of £1.225m per year until 2029/30 which equates to approximately 7 units per annum
- Maintain existing levels of general reserves (plus inflation)

1.9 **Main changes to the Business Plan:** The main changes to the Business Plan key assumptions and projections from February 2024 include an increase in income projections, an increase in revenue costs, increased capital receipts from asset sales, removal of efficiency savings target, increased major works and improvement capital programme to maintain existing stock, and a reduced development and regeneration programme. Further information can be found below:

A. Projected income levels are now overall higher. This is primarily caused by:

- a lower rent increase for 2025/26 (2.7% compared with 3.25%)
- a higher expectation that rents will increase by 3.75% in 2026/27, 3.25% in 2027/28, 2.75% for 2028/29 and 3.00% in 2029/30 (previously 2%

from 2026/27 onwards), and 2% thereafter.

- lower levels of stock loss through RTB Sales of 25 per annum in 2024/25 and 2025/26, before dropping to 19 per annum from 2026/27 (previously 55 per annum)

B. Revenue costs are higher. This is primarily caused by:

- increasing operating costs and pressures on void works
- removal of 2% efficiency gains 2025/26 to 2029/30 on general management as well as repairs and maintenance
- higher interest rates on new debt at 4.6% for 2024/25 and 2025/26, 5.00% for 2026/27 to 2029/30 and 4.0% from 2030/31 onwards (the previous projections assumed 4.5% until 2025/26, reducing to 3.5% thereafter)

C. Capital investment is higher. This is primarily caused by:

- higher levels of capital investment in existing stock
- higher levels of social housing development
- the current projections prioritise EPC C by 2030

D. Debt levels are slightly higher under the current version:

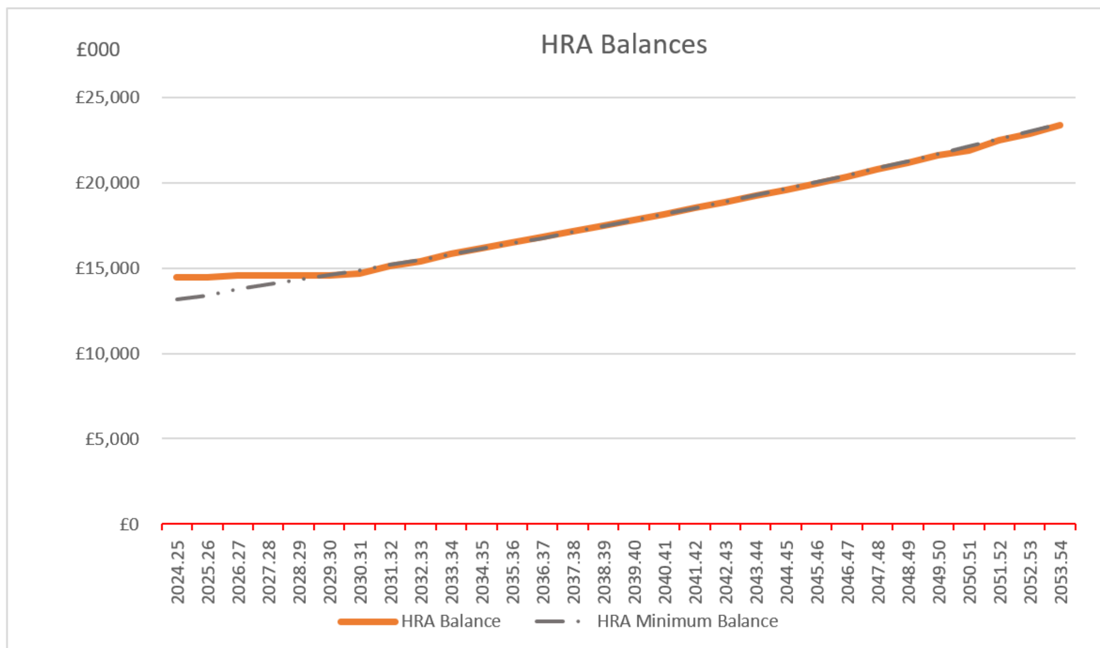
- higher levels of maintenance on existing stock
- increase in external funding of up to 50% for decarbonisation works during the first five years of the programme
- higher levels of social housing development
- increase in external funding for social housing development
- higher interest rates results in less financial capacity to reduce debt

Key Performance Measures

1.10 The following key performance measures have been used by Altair to assess the affordability and financial sustainability of our operational aspirations in light of the updated assumptions and projections within our Business Plan.

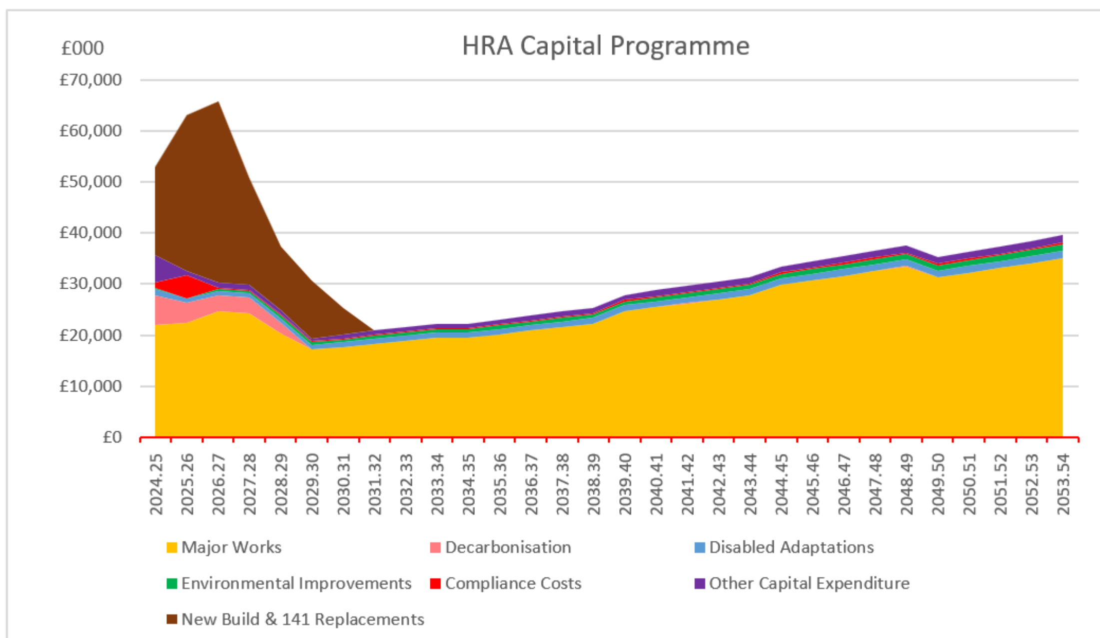
1.11 **Minimum General Reserves Balance:** The current year end 2024/25 forecast for general reserves (plus inflation) is maintained throughout the 30-year forecast (represented by the black minimum balance line in the chart below). The Business Plan assumes that any revenue surpluses above existing levels of general reserves (plus inflation) have been made available to repay debt from

2030/31 onwards.

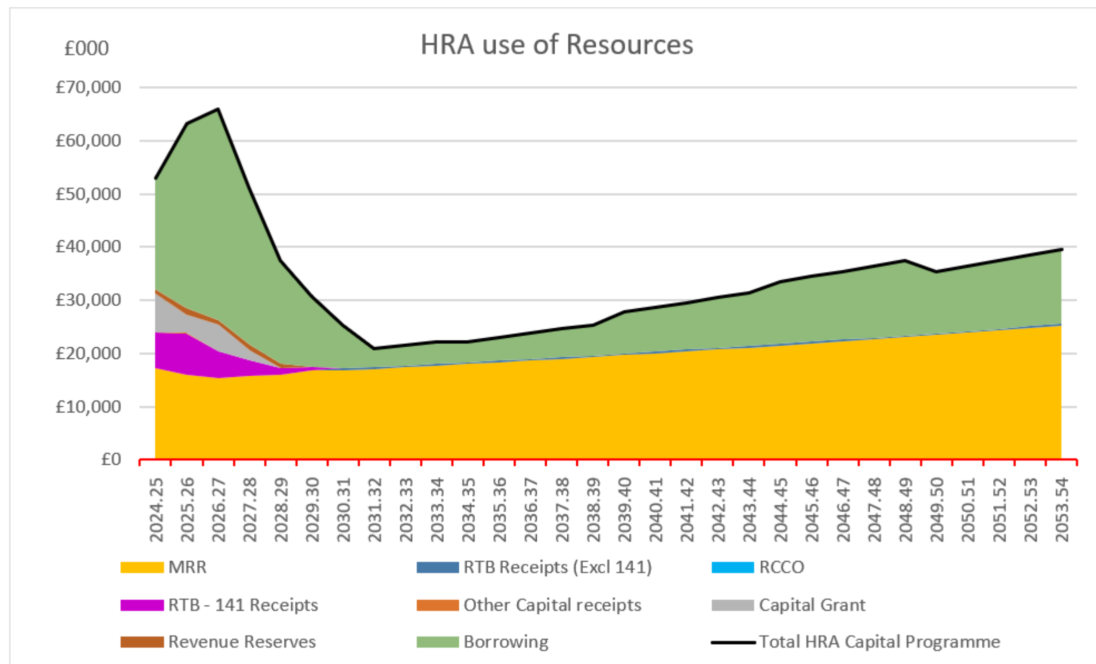


1.12 **Capital Programme**: The chart below separately identifies the main types of capital expenditure. The proposed capital programme allows for a 5-year new build programme that produces a net gain of 358 new properties by 2030/31 (brown area) and energy efficiency works over the next 5-years (pink area) while continuing to maintain the existing stock (amber area).

1.13 To note that the baseline position does not allow for any further programmes for work for new build and / or stock purchases or further decarbonisation of existing stock from 2030 onwards.



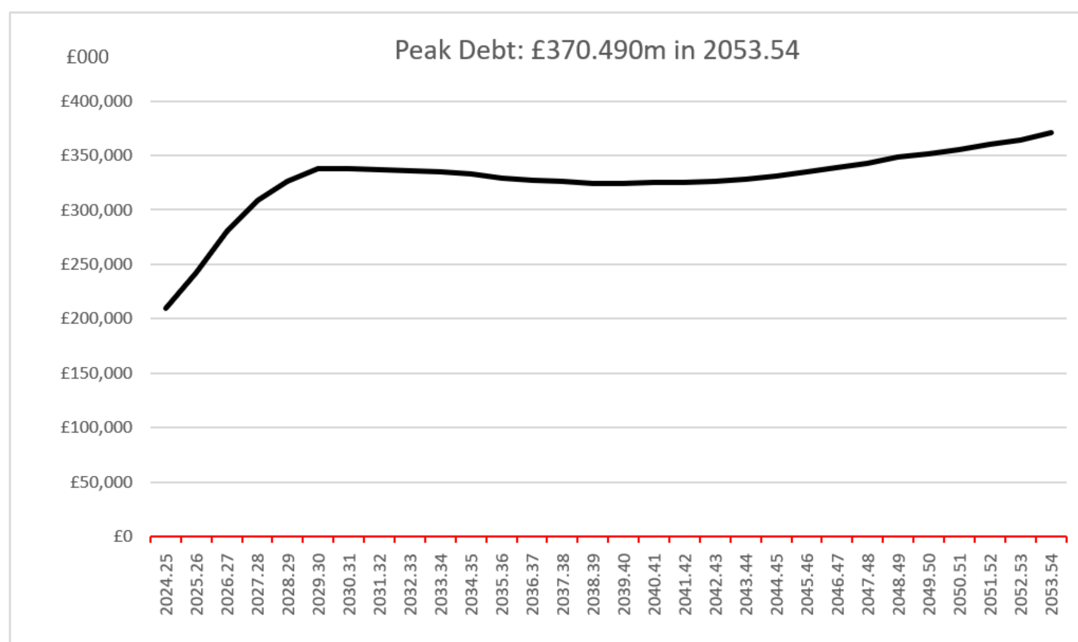
1.14 **Capital Financing Requirement**: The Business Plan assumes that all other sources of capital financing (including the Major Repairs Reserve, Capital Grants and Capital Receipts) are utilised in full in order to minimise the borrowing requirements. The chart below shows that the Council remains heavily reliant on borrowing to finance the capital programme (the green area) throughout the 30-year business plan.



1.15 **Level of Debt:** The chart below illustrates that the level of borrowing required to finance the capital programme is greater than the ability of the HRA to repay debt. Debt levels start at £209.135m rising to £338.231m in 2029/30, which corresponds with the end of the five-year development programme. The HRA is then able to repay some of its debt slightly until the second half of the period when it rises again to reach a peak debt level of £370.490m at the end of the period.

1.16 Revenue incomes are not strong enough for the authority to reduce debt levels to current levels or below. Instead, HRA debt continues to rise, exposing the authority to potential interest rate risk. To mitigate this the HRA would need to improve its financial performance (e.g. by implementing a cost reduction programme) to enable it to generate more surpluses so that the HRA can

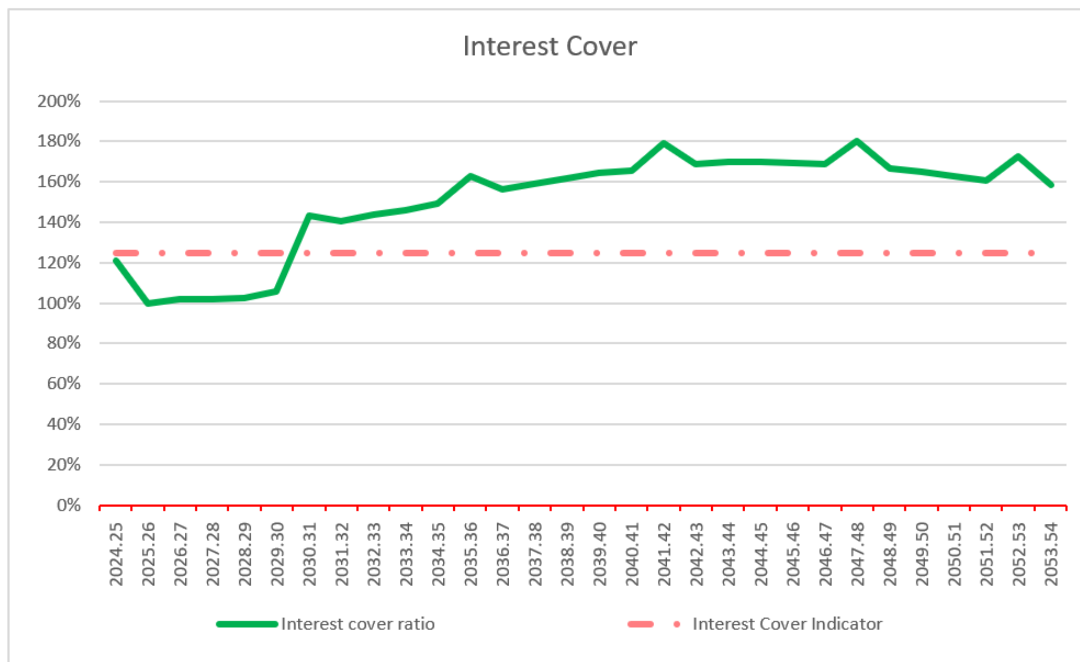
continue to repay its debt over the period.



1.17 **Interest Cover**: The chart below shows the affordability of the HRAs financial position. The interest cover (green line) measures the ability of the HRA to pay the interest charges associated with its debt. The dashed pink line on this chart provides an indicative rate of 125%, at which the authority's operating surplus would be enough to cover the cost of interest charges, plus a further 25%. This measure is widely used by housing associations and indicates the ability to pay for debt-related costs.

1.18 The projections show the HRA operating just within minimum levels (at 100% interest cover) during the first five years, as the Council takes on additional borrowing to finance its capital programme to maintain existing stock and to increase stock levels. The position then improves (at 125% interest cover) as the Business Plan assumes that any new and refinanced debt taken within the five years is refinanced at a reduced interest rate of 4% from 2030/31 onwards, and increased income from increased stock levels.

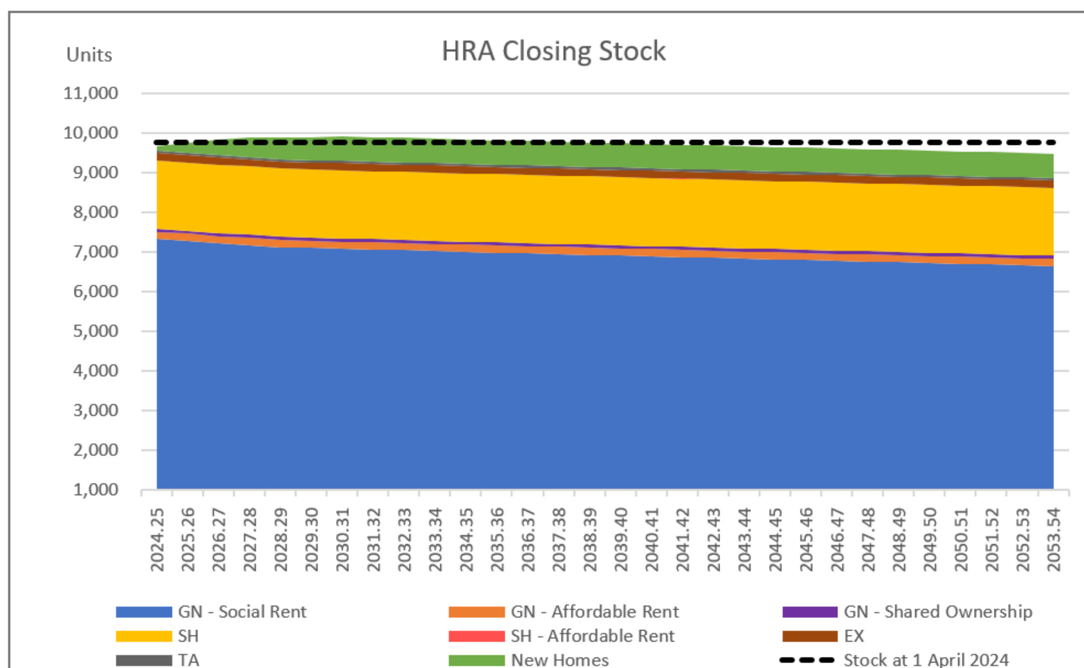
1.19 This position would weaken if the HRA had to take on additional borrowing to accommodate higher levels of spend on the Capital Programme (e.g. increasing stock numbers or further energy efficient works) or if sources of funding were withdrawn (e.g. if the General Fund issued a Section 114 Notice then Homes England could withdraw its funding).



1.20 **Stock Levels**: The final chart below shows the movement in stock numbers, taking into account the expected new homes, regeneration of existing dwellings, along with the effects of continuing RTB sales and other disposals.

1.21 The chart shows stock numbers increasing slightly over the medium term in line with the delivery of the social housing development and regeneration programme, reaching a peak of 9,914 homes in 2030/31. During this period the number of dwellings rises above current levels (shown by the black dashed line).

1.22 From 2031/32 the number of homes declines each year from continuing right to buy sales estimated at 19 units per annum and no future development programme included within the projections after 2030/31. The end of the 30-year projection shows stock dropping to 9,477 units.



Scenarios

1.23 The projections in the Business Plan have been tested for four specific scenarios to show the potential impact of different strategic operational decisions.

1.24 They were assessed for their impact on affordability and financial sustainability in terms of the ability to generate net income that is 125% or more of the cost of interest on debt and the ability to repay or reduce debt over the long term, and the overall impact on balances.

1.25 These scenarios included:

A. Including an average **decarbonisation** investment of £0.020m per dwelling by 2050 from 2030/31 onwards, **with 50% external funding**. No new build. Shown as the red line in the charts.

B. Including an average **decarbonisation** investment of £0.020m per dwelling by 2050 from 2030/31 onwards, **with no funding**. No new build. Shown as the blue line in the charts.

C. Extending the **new build programme** by 5 years to deliver 50 new homes per annum. No decarbonisation. Shown as the green line in the charts.

D. Combining **scenario A and C**, above. Shown as the burgundy line in the charts.

Note that the black line represents the baseline position.

1.26 **Impact on debt:** The chart below compares the level of debt on each of the

four scenarios.

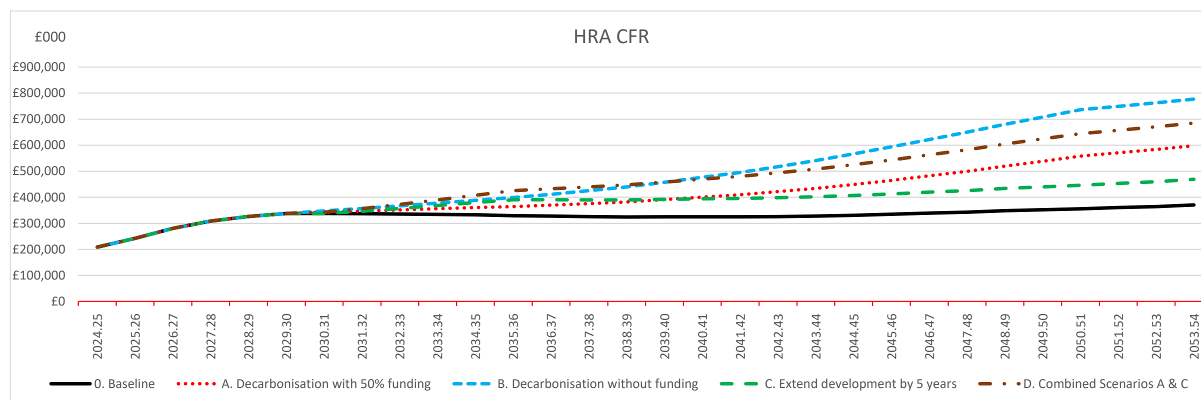
1.27 In all scenarios there will be a requirement for the HRA to take on more debt to deliver the capital investment of increasing stock and / or decarbonising existing stock. Therefore all scenarios will increase the level of debt held in comparison to the baseline position.

1.28 The ***capital investment in decarbonisation with funding*** (scenario A - red line) shows that substantial levels of additional borrowing is required even with the assumption of 50% funding from external sources. Debt levels peak at £600m at the end of the 30-year period.

1.29 The ***capital investment in decarbonisation without funding*** (scenario B - blue line) demonstrates the highest level of additional borrowing of the four scenarios. This significantly increases levels of debt that peak at over £700m at the end of the 30-year period.

1.30 The ***extension of the new build programme*** (scenario C - green line) shows that additional borrowing is required to increase stock, though less than all other scenarios, as it has the added benefit of new long term rental income to help finance the new debt. Debt levels peak at just over £400m at the end of the 30-year period.

1.31 The ***combination of capital investment in decarbonisation with funding and the extension of the new build programme*** (scenario D - burgundy line) demonstrates that substantial additional borrowing is required, though less than just decarbonisation (without funding) alone, as it has the added benefit of new long term rental income from new stock to help finance the new debt. Debt levels peak at over £600m at the end of the 30-year period.



1.32 **<u>Impact on Interest Cover:</u>** The chart below considers the affordability on each of the four scenarios by considering the interest cover.

1.33 For the ***extension of the new build programme*** (scenario C - green line) the chart shows that the interest cover (financial affordability) is maintained for the duration of the 30-years, although the financial capacity does decrease towards minimum levels towards the end of the period. This is due to the baseline position (black line) performing above the minimum level from 2030/31 onwards

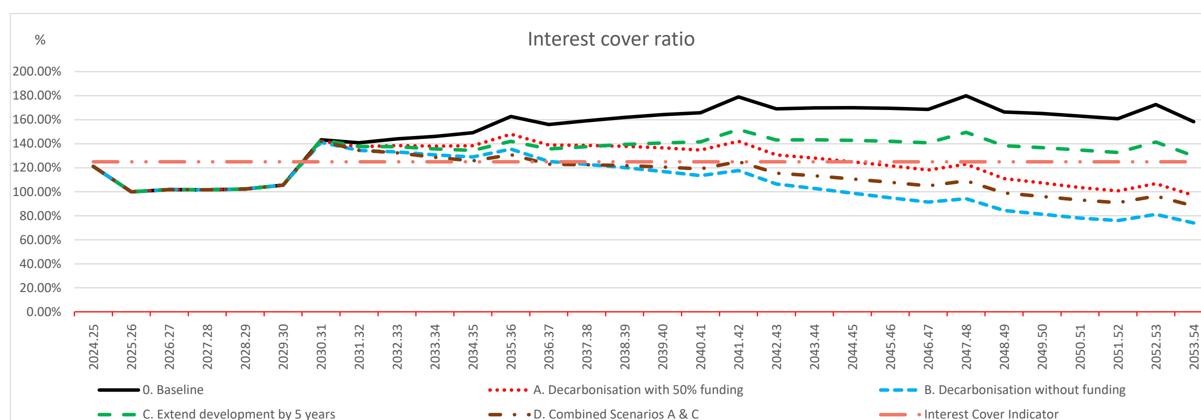
which provides financial capacity to be able to extend the new build programme for five years.

1.34 ***All other scenarios*** (red, blue and burgundy lines) result in debt levels becoming unaffordable as the HRA does not have the financial capacity to finance the debt required to deliver the level of capital investment being modelled – all falling below the pink line.

1.35 Scenario B (blue line) - ***capital investment in decarbonisation without funding*** – performs the worst and becoming unaffordable (falling below 125% interest cover) from 2036/37 onwards, as the Council is making substantial investments in its existing stock without any additional income / funding.

1.36 Scenario D (brown line) - ***combination of capital investment in decarbonisation with funding and the extension of the new build programme*** - performs a little better, due to the new long-term income that provides some additional financial capacity in the form of rents. However further borrowing is required to supply new homes as well as decarbonisation of existing stock, and this scenario becomes unaffordable (falling below 125% interest cover) from 2036/37.

1.37 Scenario A (red line) - ***capital investment in decarbonisation with funding*** - performs a little better again, due to the external funding, but creates unaffordable (falling below 125% interest cover) levels of debt from 2044/45 onwards.



1.38 **Impact on Balances:** The chart below considers the ability of each scenario to maintain the minimum balance on each of the four scenarios.

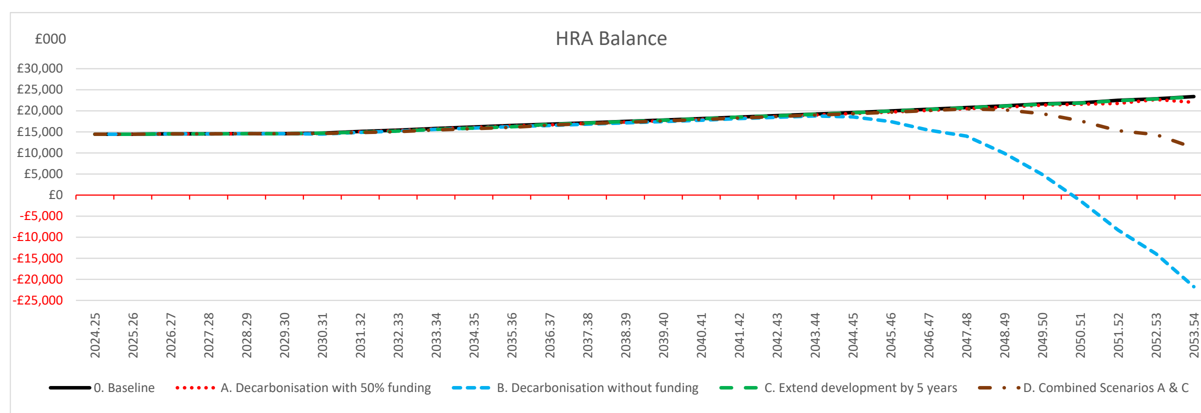
1.39 Scenario B (blue line) - ***capital investment in decarbonisation without funding*** - demonstrates that minimum balances could not be maintained from 2043/44 as debt reaches unaffordable levels and balances are consumed entirely by 2049/50, falling into deficit. Noting that it would be unlawful for the Council to budget for a deficit on its HRA there would need to be efficiencies found to enable a balanced HRA budget or a reduction in Capital spend and cost of borrowing.

1.40 Scenario D (brown line) - ***combination of capital investment in***

decarbonisation with funding and the extension of the new build programme – demonstrates that minimum balances could not be maintained from 2047/48 as debt reaches unaffordable levels and balances are consumed.

1.41 In scenario A (red line) – ***decarbonisation with 50% funding*** – demonstrates that minimum balances could not be maintained from 2048/49 as debt reaches unaffordable levels and balances are consumed. Whilst only falling just under minimum balances the charts reviewed further above (e.g. impact on debt and interest cover) indicate that balances would start to come under pressure within a few years.

1.42 In scenario C (green line) – ***decarbonisation with 50% funding*** – the minimum balance can be maintained throughout the period however the charts reviewed further above (e.g. impact on debt and interest cover) indicate that balances would start to come under pressure within a few years as debt rises and interest cover drops.



1.43 **Summary:** These scenarios demonstrate that the Council's HRA does not have the financial capacity to continue the capital investment required for full decarbonisation in its existing stock and / or to extend the new build programme. Even with substantial external funding for decarbonisation the HRA does not have the financial capacity to finance and repay the debt associated with this level of capital investment. At best the HRA could deliver an extended programme of 250 new homes however this does reduce the HRA's financial capacity to respond to unforeseen financial circumstances. The HRA will need substantial funding (over 50%), a significant reduction in borrowing rates and reduced operating costs to be able to consider further capital investment beyond the proposed MTFP.

Sensitivity Testing

1.44 Altair have also used a range of scenarios that test the sensitivity of the underlying assumptions in the Business Plan in light of external economic factors.

1.45 There were assessed for their impact on affordability and financial sustainability in terms of the ability to generate net income that is 125% or more of the cost

of interest on debt and the ability to repay or reduce debt over the long term.

1.46 These sensitivity tests included:

A. General inflation rates increase by 1% against the baseline assumptions from 2026/27 for three years. This sensitivity test shows the effect of a rise in general inflation, which impacts on both rents and costs. Shown as the green line in the charts.

B. Building costs rates increase by 1% against the baseline assumptions from 2026/27 for four years. This sensitivity test illustrates the impact of costs increasing at a faster rate than rents over the medium term. Shown as the red line in the charts.

C. Interest rates for new borrowing increase by 1% against the baseline assumptions from 2025/26 for three years. This sensitivity test demonstrates the effect of a medium-term increase in borrowing costs. Shown as the yellow line in the charts.

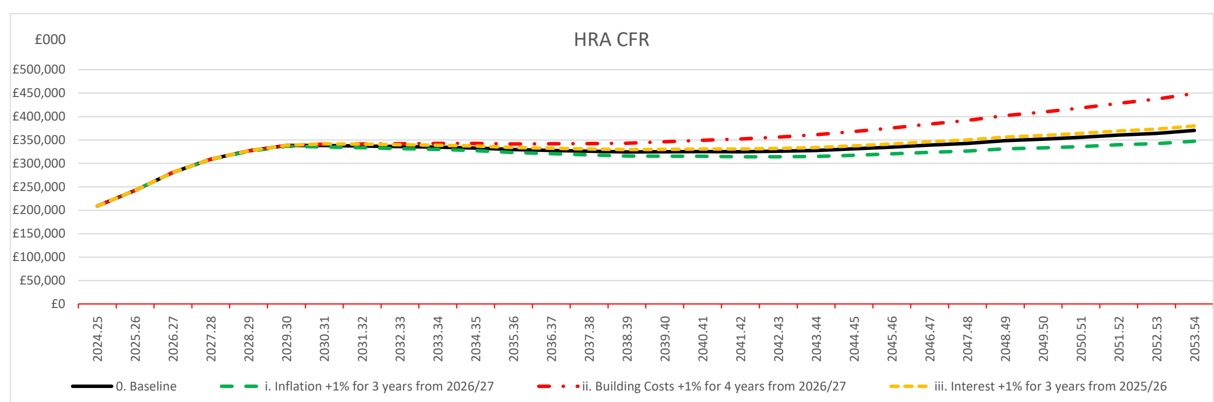
Note that the black represents the baseline position.

1.47 **Impact on debt:** The chart below compares the level of debt on each of the three sensitivity tests.

1.48 An ***increase in general inflation*** (green line) would generate more rental income than the HRA pays in operating costs. This increases financial capacity and enables a small additional amount of debt to be repaid.

1.49 An ***increase on building costs*** (red line) requires the HRA to pay more to deliver the same level of works. This reduces financial capacity to repay debt and increases levels of debt at the end of the period.

1.50 An ***increase in borrowing costs*** (yellow line) would mean that the HRA needs to pay more in interest charges to finance debt and reduces financial capacity to repay debt. This will cause long term debt levels to rise.



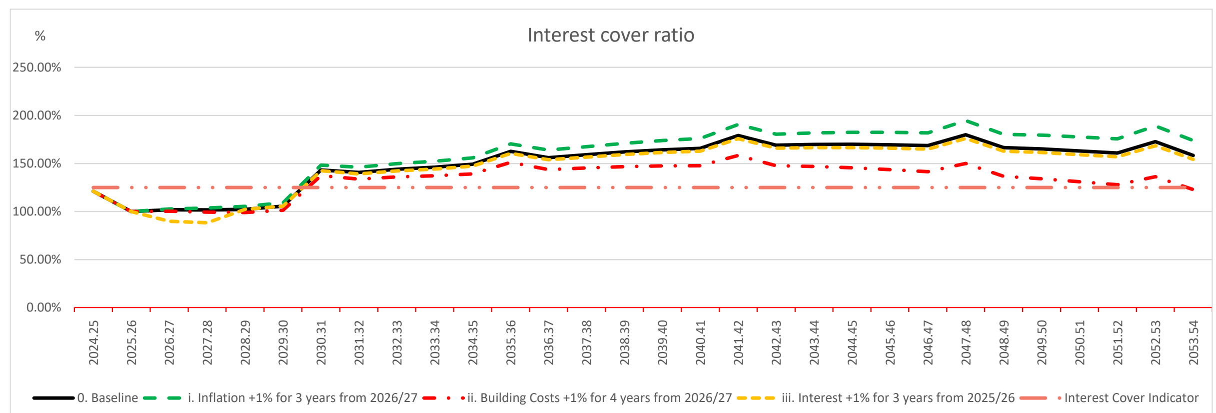
1.51 **Impact on Interest Cover:** The chart below considers the affordability of the three sensitivity tests by considering the interest cover.

1.52 An ***increase in general inflation*** (green line) would generate more rental

income than the HRA pays in operating costs. This increases financial capacity shown with an increase in interest cover.

1.53 An ***increase on building costs*** (red line) requires the HRA to pay more to deliver the same level of works. This reduction in financial capacity reduces interest cover to close to the minimum recommended level.

1.54 An ***increase in borrowing costs*** (yellow line) would mean that the HRA needs to pay more in interest charges to finance debt. This reduces financial capacity and reduces interest cover slightly.



1.55 **Summary**: These sensitivity tests demonstrate that the Council needs to closely and continuously monitor its ongoing revenue expenditure costs and income in order to protect the HRA from adverse changes in the economic operating environment so that it has the financial capacity to finance its debts. The Council will need to review and update its modelling assumptions regularly to ensure that exposure to interest cover risk is understood and remains manageable.