

HRA 30 year business plan briefing document

1. Introduction

This note has been prepared by Housing Finance Associates, using information supplied by officers at New Forest District Council about the authority's housing revenue account (HRA). It presents an updated baseline position, which has been prepared using working papers and assumptions agreed with the authority following its budget-setting process.

The projections summarise expenditure, investment, capital financing and borrowing in respect of council housing over a 30 year period, starting in 2024/25 and the authority's best available data and assumptions. They allow for inflationary pressures to impact on budgets and programmes from 2026/27 onwards. The projections also assume that National rent policy will permit maximum rent increases of CPI +1% until 2035/36, which is in line with a recent announcement by government.

The government has recently consulted on reintroducing rent convergence for existing social rent tenancies. Alongside the baseline we have included an indication of the potential effects of two scenarios for reintroducing rent convergence from 2026/27.

We recommend that the authority reviews the risks facing its HRA regularly, with a view to identify the effects of emerging situations at an early stage, testing its response and taking appropriate action to eliminate or mitigate the risk.

2. Baseline projections

2.1. Baseline assumptions

The baseline assumptions reflect the projected 2024/25 revenue outturn, 2025/26 budget and medium term projections for capital and revenue prepared by the authority's finance team. These update the draft budgets that were reported to Cabinet in the annual budget-setting report from February 2025. Other information and assumptions we have used in preparing this baseline projection include:

- Updated information on the authority's programme for developing and acquiring new dwellings over the medium term.
- An expectation that growth in General Management budgets in 2025/26 to support the authority's transformation programme will be removed from 2027/28 onwards.
- Data from the right to buy pooling returns that the authority submits to MHCLG
- We have assumed that the authority sold 25 homes under the right to buy in 2024/25 and sells 40 homes in 2025/26, while it processes an influx of applications that followed publication in October 2024 of the government's plans to reform the Right to Buy and reduce discount levels. From 2026/27 onwards we have allowed for 10 to 11 sales pa.
- The authority aims to maintain a minimum HRA balance of £1.000m, adjusted for inflation
- Any sums generated by the HRA that exceed the minimum balance are made available to finance the capital programme or to repay debt
- Actual rents increase at the maximum rate currently permitted by the rent standard. The maximum rent increase for existing tenants in 2025/26 has been set at 2.7%. Under a recent announcement by government, increases of CPI +1% are expected to apply until 2035/36. We have made the prudent assumption that rent increases will be limited to a CPI uplift from April 2036.
- Formula rents increase at CPI +1% until 2035/36, in line with the government's announcement. From 2036/37 onwards we have assumed that formula rents increase in line with CPI.
- In 2024/25 the authority re-let 5.5% of its social rent stock (282 units) at formula rent, with future relets in the same proportion. A small number of these dwellings (6 pa) are also re-let with an additional 5% rent flexibility charge, which is permitted under the rent standard.
- Depreciation costs have been estimated in line with the authority's budget, uplifted for inflation at CPI.
- Inflation assumptions have been updated to reflect the May 2025 Monetary Policy report from the Bank of England and applied as follows:
 - CPI at 3.25% in the final quarter of 2025 and 2.0% in the final quarters of 2026 and 2027. These rates have been used to reflect underlying inflation for 2026/27, 2027/28 and 2028/29 respectively. From 2028/29 onwards we have assumed CPI runs at 2% pa.
 - RPI tracks at CPI +1%
 - General management and special management costs increase by underlying CPI.
 - Building costs increase at RPI. This affects spending projections for day to day repairs and maintenance, major works to existing homes and the provision or acquisition of new homes.
 - Other costs in the capital programme have been inflated by CPI.
- The baseline allows for the HRA to develop or acquire 445 new homes between 2024/25 and 2034/35.

- Major works and component replacements are treated as 100% variable from 2027/28. These costs have an element that flexes to reflect increases and reductions in the housing stock.
- At the start of the planning period HRA debt includes internal borrowing from the Council of £9.812m.
- The projections assume a pooled interest rate of 4.8% would apply to new loans in 2024/25 and 2025/25, reducing to 4.2% for 2026+/27 and 2027/28, then a rate of 3.8% from 2028/29 onwards.

In preparing this projection we have assumed that the HRA would attempt to repay any additional external borrowing that it undertakes as quickly as possible. Our reason for making this assumption is that it gives a clearer indication of how well the HRA can service and repay any borrowing that is required to deliver its long term capital programme. Any actual borrowing undertaken by the authority would be subject to the prevailing market conditions and guidance received from the authority's treasury advisors.

2.2. Gaps in the data and potential risks

Note that there are gaps in the data available to the authority, which have required us to make assumptions about future expenditure in key areas. The two principal gaps we have identified relate to:

- The cost of unforeseen works that may be required when investing in the authority's existing housing stock. We have included a contingency to allow for such works
- Lack of certainty around future National policies impacting on the Right to Buy, decarbonisation of the housing stock and associated funding. We have made prudent assumptions to accommodate these risks.

The profile of component replacements required for the existing stock is generated from the authority's stock condition data. We recommend continuing to update the modelling assumptions to accommodate new information from the stock condition data, as soon as it becomes available.

Other key risks include:

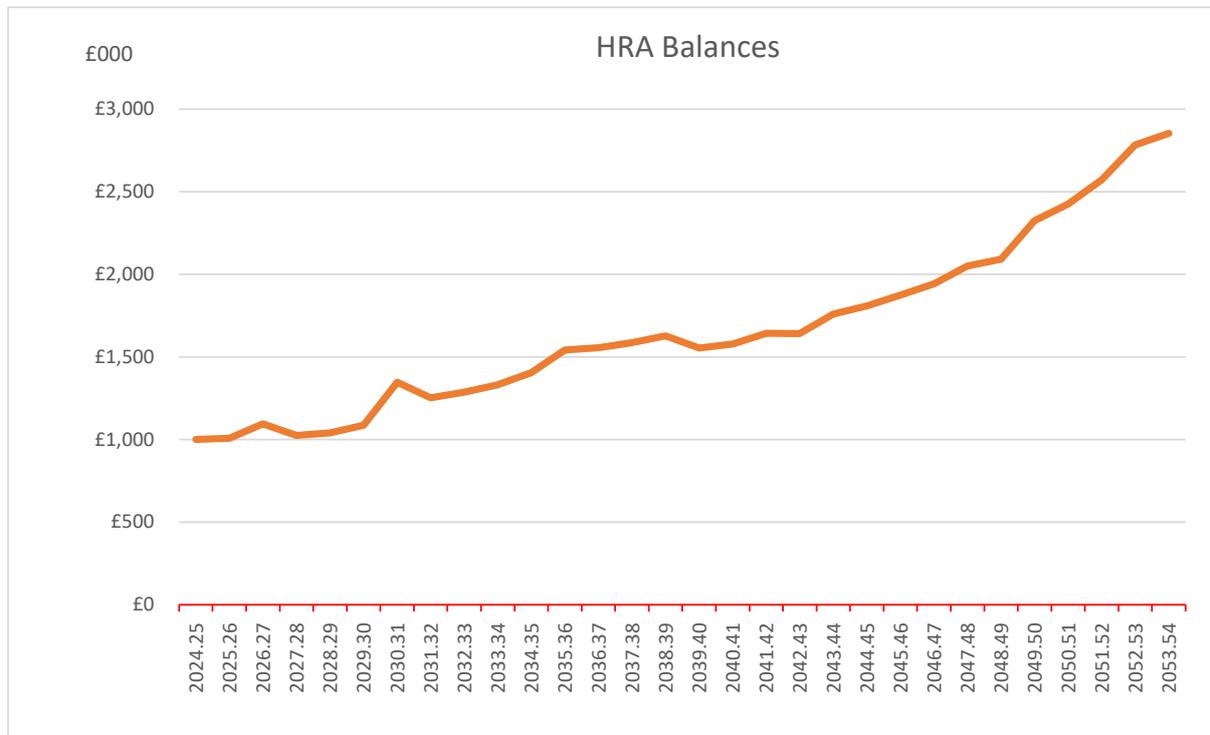
- fluctuations in the underlying rate of inflation, which can impact on both costs and income
- further constraint imposed on rent increases, whether by government or the authority itself
- increases in the costs of works and services that are not matched by increases in income
- changes to underlying interest rates

We recommend that the authority reviews the potential HRA impact of these risks regularly, as part of its early warning system. This will enable it to identify the effects of emerging situations at an early stage, test its response and take appropriate action to eliminate or mitigate the risk.

The effects of the baseline assumptions are shown in the following sections.

2.3. Baseline - revenue position

The chart below shows the authority's ability to maintain a minimum level of balances during the 30 year period covered by the baseline projection:

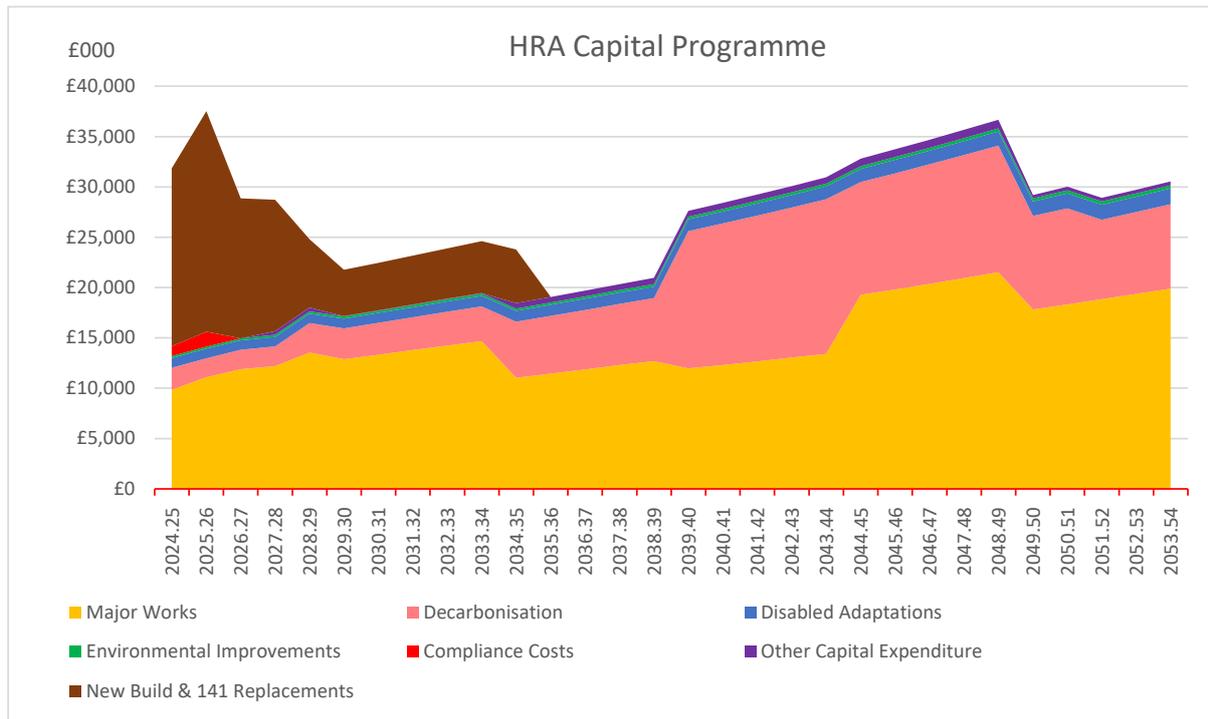


In this chart the orange line projects the cumulative HRA balance at the end of each year.

The authority maintains its minimum HRA balance of £1.000m (plus inflation) throughout the projections. During this period, any "spare" rents generated are used to pay for capital projects or to repay debt.

2.4. Baseline -capital programme

The next chart shows the scale and composition of the authority's projected capital programme:



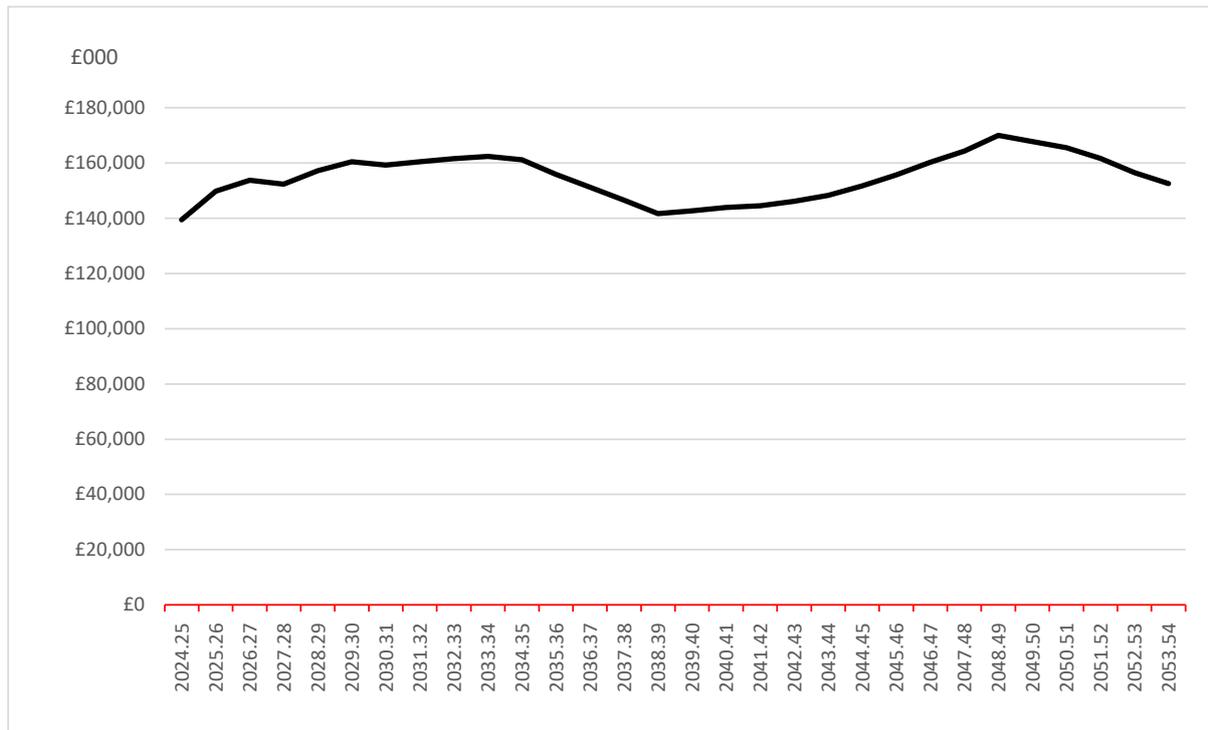
This projection includes a cautious 10 year programme for new build and stock purchase that produces 445 new properties between 2024/25 and 2034/35 (brown area). This reasonably represents the authority's commitment to increasing its housing stock, including a buyback programme, over the medium term.

The amber area allows for investment required on stock condition, based on the existing capital programme and stock condition data, with a contingency for (as yet) unidentified additional stock investment. The pink area shows an allowance for improving energy efficiency of existing homes to EPC level C standard by 2030, plus wider decarbonisation works. This allowance is based on the existing capital programme and stock condition data, with a contingency for additional decarbonisation works. The total amount of decarbonisation investment in the above chart is consistent with representative levels assumed by other local authorities.

The average cost of major works at current prices, £51,316 per dwelling (excluding decarbonisation works). The allowance for decarbonisation comes to £24,859 per dwelling at current prices over the same period. These allowances remain consistent with representative levels of investment in other authorities.

2.5. Baseline – debt

The next chart projects movements in the level of HRA debt during the planning period:



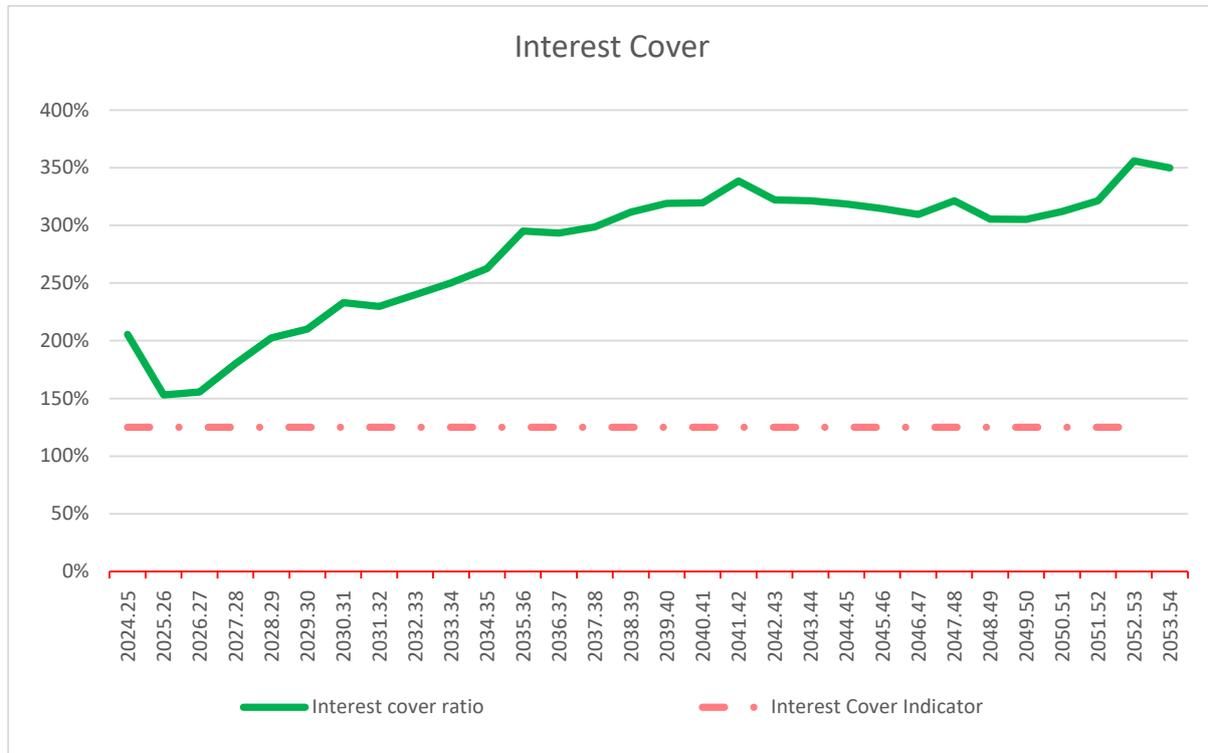
On these assumptions, the authority is unable to finance its capital programme entirely from its Major Repairs Reserve, revenue surpluses generated by the HRA and projected right to buy receipts. This causes the HRA to rely on borrowing to part-finance its HRA capital programme throughout the thirty year period.

HRA-related debt is projected to rise gradually over the medium term, reaching £162.384m in 2033/34. This coincides with a cyclical drop in major works investment. Debt then falls gradually until 2038/39 as the HRA takes the opportunity to repay debt. It then rises again, reaching a peak of £169.977m in 2048/49, when there is a further dip in the capital investment requirement and the authority is able to resume net debt repayments. It is noticeable that the authority is able to repay more debt than under previous projections. This is as a result of it generating additional rent, in line with the government announcement on rent increases.

Debt reaches its peak level in 2048/49, which is towards the end of the period covered. This means that the authority would be exposed to potential fluctuations in interest rates over the long term. It will therefore be important to continue reviewing the authority's options as the underlying economic circumstances evolve.

2.6. Baseline – affordability

Alongside our projection of the ability of the HRA to repay the debt required to finance the assumed capital programme, the chart below compares the level of operational surplus it generates with a standard indicator used by other landlords:



The green line in this chart shows the number of times the revenue HRA surplus is able to cover the assumed interest charges. When the green line goes down the authority's HRA is either making smaller surpluses or paying more in interest charges and the reverse is true when the green line goes up. The static dashed pink line suggests a minimum level of 125%, below which the authority would be at risk of being unable to cover its interest costs from its operating surplus.

This chart shows good levels of interest cover throughout the projections, which implies that the authority would be able to afford the level of borrowing required under the baseline assumptions. It is noticeable that performance against this metric levels off towards the end of the planning period. This reflects an expectation that some costs will rise at a faster rate than income over the long term, along with increases in borrowing to deliver the 30 year capital investment requirement.

Any increase in costs or loss of income would cause performance under this metric to deteriorate, unless the authority is able to make cost savings or generate additional income to compensate. The types of additional cost that the authority could encounter might result from higher inflation, increases in interest charges, commitments to spend more on providing additional or improved services, or additional costs to secure compliance with regulatory requirements. Any constraint on rent levels (whether imposed by government, or by a local decision to set rents at a lower level) would have a similar negative impact on interest cover performance.

Note that the requirement for borrowing is very sensitive to assumptions relating to cost levels, income from rents and other sources, plus interest rates. Initial sensitivity testing of these assumptions indicates that the authority should continuously seek to minimise costs and maximise income as a way of keeping debt levels down and minimising the associated risks.

2.7. Baseline – summary

The baseline assumptions produce a position that looks affordable but starts to weaken over the long term. The HRA can use borrowing to increase the number of council homes over the medium term, but to protect the long term financial health of the HRA the authority needs to be cautious about future commitments. It will be important to continue to minimise costs, while maximising income and resources. Where possible, spending pressures should be contained within the levels of income growth the authority can achieve from rents and other charges.

3. Rent convergence scenarios

3.1. Scenarios and assumptions

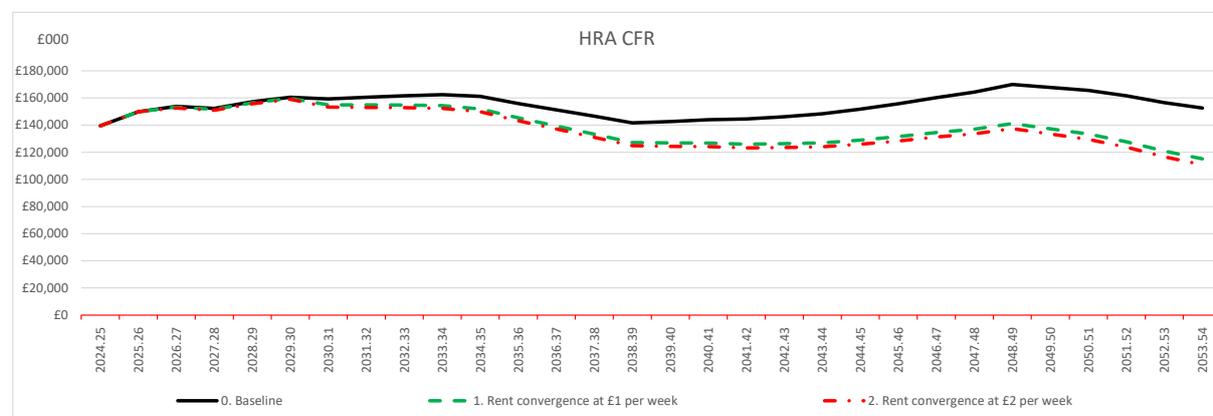
Rent convergence would enable the authority to close any gap between the rent a tenant pays and the formula rent for their property. This would be done by permitting rent increases that are higher than the maximum increase currently set under the rent standard until the actual rent and formula rent for the dwelling reach parity.

The government’s consultation on rent convergence considers an uplift of £1 or £2 per week to achieve this alignment. Accordingly, we have prepared one scenario for each of these alternatives:

- Rent convergence at £1 per week
 - The maximum weekly rent increase £1 per week higher for social rent dwellings where actual rents have yet to converge with the formula rent.
 - For dwellings where the rents have already converged, the maximum rent increase is the same as assumed for the baseline
- Rent convergence at £2 per week
 - The maximum weekly rent increase £2 per week higher for social rent dwellings where actual rents have yet to converge with the formula rent.
 - For dwellings where the rents have already converged, the maximum rent increase is the same as assumed for the baseline

3.2. Rent convergence scenarios – debt

The chart below projects movements in the level of HRA debt under each scenario, compared with the baseline position:

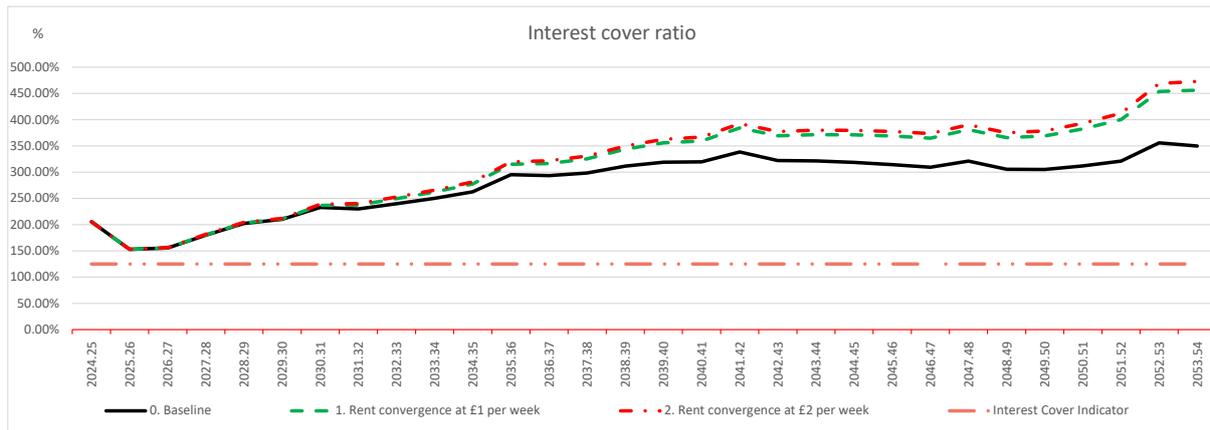


In this chart the black line shows projected HRA-related debt for the baseline. The green dashed line shows the effects of allowing for rent convergence at £1 per week. The red dashed line reflects rent convergence at £2 per week.

Both of the scenarios permit the authority to charge additional rent from 2026/27. This generates additional surpluses for the HRA, which enables it to repay more debt. As a result, debt drops noticeably after the medium term and continues to lower significantly by the end of the projections.

3.3. Rent convergence scenarios – affordability

We can expect rising rents and falling debt levels to have an impact on interest cover, which is a key measure of affordability for HRA-related debt. The impact is shown in the following chart:



The black line in this chart presents the baseline position, with the green line showing the effects of rent convergence at £1 per week and the red line showing rent convergence at £2 per week.

HRA-related debt becomes more affordable as debt levels fall and rents rise. This happens because there is more income available to the HRA, while interest charges on reduced debt levels are also lower. As a result, more income generated from rents is available to be used for other purposes.

3.4. Rent convergence scenarios – summary

Rent convergence clearly has a beneficial impact on the financial health of the HRA, as it permits the authority to increase income from rents while reducing debt.

As an indication, we anticipate that it would take six years for a general needs rent to converge at a rate of £1 per week for New Forest District Council. If rent convergence is permitted at £2 per week, these times reduce to three years for rents to reach parity. This means that rents converge quickly under both options, with similar financial benefits, although the gains are slightly higher for the authority if convergence is permitted at £2 per week.

Alongside any use of rent convergence, we expect the authority would also need to consider the affordability of the resulting rents to its tenants.