



**HFS**

Housing Finance Specialists

Wiltshire Council

HRA Business Plan 2023/24

8 December 2023

## Contents

1.	EXECUTIVE SUMMARY .....	1
2.	ASSUMPTIONS AND REGULATIONS.....	3
3.	CHANGES TO PREVIOUS APPROVED BUSINESS PLAN.....	10
4.	MODEL OUTPUTS AND ANALYSIS.....	12
5.	CONCLUSIONS .....	25



# 1. Executive Summary

- 1.1 One of the six principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) voluntary code for a self-financed Housing Revenue Account (HRA) is that the authority has arrangements in place to monitor and maintain the viability of the housing business and provides a business planning process underpinned by appropriate financial modelling. A business plan sets out how a local authority plans to meet its financial obligations for the management and maintenance of its housing stock and how it proposes to fund investment in improvements and in new housing.
- 1.2 This report shows the key assumptions and outputs from the Council's latest HRA business plan, the changes from the previous approved version (including updates for inflation, interest rates and regulatory arrangements for RTB receipts) and some "what if?" analysis to stress test the latest plan against potential risks.
- 1.3 The previous approved model included a Council House Build programme (CHBP) of £273m for the 10 years from 2022/23. The CHBP remains unchanged and along with the programme of works for existing stock (including the decarbonisation plans) requires additional borrowing of £196m and revenue contributions of £9m. The base business plan demonstrates that using a combination of resources from the Major Repairs Reserve (MRR) and from revenue, the HRA can finance the additional borrowing required and fully repay this borrowing (as well as the outstanding self-financing loans) over the course of the plan, while retaining a balance on the HRA at the end of the plan of £34m. This provides a sustainable business model, against which capital plans can be continually monitored. Any decisions that reduce income or increase expenditure would affect balances and reduce the ability to provide for the repayment of debt, which is illustrated in the risk analysis.
- 1.4 The "what if?" analysis shows that the base plan has some resilience to adverse economic and regulatory changes provided that the Council adopt a flexible approach to debt management. If interest rates increase above the forecast levels, the Council can maintain a viable business plan, if it is able to apply formula rent flexibility across all its stock. If the Council decide to apply a required interest cover ratio of 125% for each year, this can be achieved by removing later unspecified phases of the CHBP or reducing costs of management and maintenance. However, if the Government were to impose an additional restriction on rents with increases at a maximum of the Consumer Price Index (CPI) -1%, a balanced business plan is not sustainable in the long term.



- 1.5 The business plan model provides a picture for the future HRA based on the best estimates and assumptions available. Ongoing work will refine these assumptions and reflect future changes to continue to help inform strategic decisions of the Council.



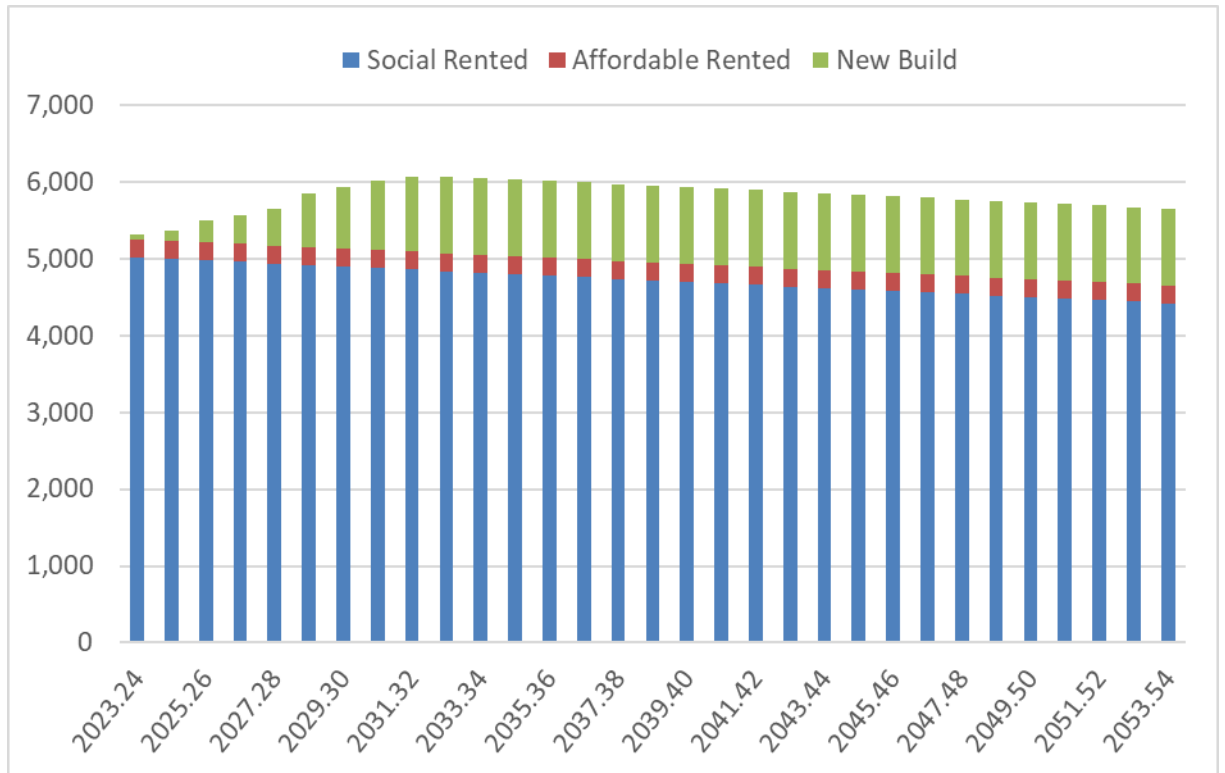
## 2. Assumptions and Regulations

### Introduction

- 2.1 All references in this paper to regulations may be subject to interpretation and legal advice should be sought before taking any action dependent on that interpretation.
- 2.2 It is a requirement to have a HRA where the Council own 200 or more social dwellings. The HRA is a landlord account primarily for the Council's tenants, recording the transactions arising from the provision of social housing under the terms of Part II of the Housing Act 1985. It is not a separate fund but a ring-fenced account for housing (where credits and debits are prescribed by statute) within the Council's General Fund and for which the Council cannot budget for a deficit. If property is not provided under the powers listed in Section 74(1) of the Local Government and Housing Act 1989, or in directions made under that Section, the Council must not account for it in the HRA. This is the HRA ring fence, the operation of which is supported by Government guidance.
- 2.3 The purpose of the business model is to consider at a strategic level the impact of plans and forecasts on the HRA over a 30-year period from 2023/24. On 1 April 2023, the Council owned 5,342 tenanted units (including 32 shared ownership and 270 at affordable rent).



2.4 Projected stock numbers are shown on the table below.



### Inflation

2.5 There are two measures of inflation included in the business plan: CPI which is used for rent calculations; and the Retail Price Index (RPI) which is used for other income and expenditure. In accordance with the September 2023 indices, RPI for 2024/25 is 8.9% and CPI is 6.7%. For later years, in line with the Government target, CPI is assumed at 2% (and RPI at 3%).



## Rents and Other Income

- 2.6 Social rent policy is set out in the Government's policy statement. A direction is provided to the Regulator of Social Housing to regulate the policy through application of the Rent Standard. The regulation required a ceiling to be placed on rents at 7% for 2023/24 but for 2024/25 reverts to the previous limit on rent increases of CPI + 1%. The Government promised consultation regarding the ongoing policy for rent increases from 2025/26, which is still awaited. In the absence of any further advice the Council have made a prudent assumption that future rent increases will be limited at CPI only. Detailed rent modelling has been undertaken to support the inputs to the business plan.
- 2.7 Although not a regulatory requirement, constraining affordable rents (which apply to new properties supported by Government funding) at the level of the Local Housing Allowance (LHA) will be considered as part of the ongoing business planning work. This would only affect a small number of tenants (195) where the affordable weekly charge (for rent and services) exceeds LHA by on average £26.60. LHA rates were anticipated to be frozen until 2025/26 but in the Autumn Statement it was announced they would increase to the 30th percentile of local market rents from April 2024. It is planned to undertake detailed modelling of the impact of LHA on rents, once the rates for 2024/25 are known, so that this approach can be considered in advance of rent setting for 2025/26.
- 2.8 Other income has been included in line with the HRA budgets and increased in line with RPI.

## Right to Buy (RTB)

- 2.9 A reduction in RTB sales to 20 per year from 2023/24 is forecast based on the latest sales data. Detailed analysis of the implications for the Council is modelled separately. This modelling supports the Government return required for pooling of receipts and the apportionment of forecast receipts (arising from future sales), with the outputs being reconciled and applied to the business plan. More details of the rules for dealing with RTB receipts are shown below under 'Usable RTB Receipts'.

## Management and Maintenance

- 2.10 All inputs are based on the latest estimates. Management (and service) costs are assumed to increase in line with CPI. Maintenance costs are assumed to be linked to RPI increases. Both management and maintenance costs are assumed to vary with stock changes.



## CHBP

- 2.11 The Council House Build Programme is the same as agreed in the previous approved business plan. Scheme costs total £273.1m, of which £9.2m was assumed to be incurred in 2022/23 (before the start of the business plan model).
- 2.12 New properties are excluded from the requirements of pooling provided that they have been recorded in an application to Government.

## Other Capital Expenditure

- 2.13 Provision is also made in the business plan for planned repairs and renewals for the Council's existing stock, which is linked to stock numbers, decarbonisation works and IT upgrades. Increases are assumed to be in line with RPI.

## Reserves

- 2.14 The Council has included a minimum revenue balance of £1m throughout the business plan. Where there is a shortfall in resources to meet the capital plans, revenue resources can be used if the balance on the revenue account does not fall below this level. However, to ensure that the level of borrowing required for the capital programme is affordable, it is necessary to maintain revenue balances at higher levels (to meet the financing costs of new borrowing). The approach adopted by the Council to resource the capital programme is shown below.





## Resourcing the Capital Programme

### Usable RTB Receipts

- 2.15 The rules governing the distribution and use of capital receipts are contained in the Local Authorities (Capital Finance and Accounting) Regulations 2003 as amended. A schedule was introduced (in its current form) to the regulations by Statutory Instrument (SI) 2012/711 (and subsequent amendments). This applies different treatment to HRA capital receipts between those defined in the schedule to the regulations and other (non-schedule receipts). The schedule applies to properties sold under the RTB or by the grant of a shared ownership lease of more than 50% or where 50% is exceeded within two years of the original lease. These (schedule) receipts are apportioned and recorded in annual returns to the Government ('pooling returns') as: transaction costs; allowable debt; local authority share; government share and the buyback allowance. Any remaining receipts can be retained by the Council as 1-4-1 receipts only to be used in accordance with the terms of a retention agreement. The business plan currently assumes that all the RTB receipts except the local authority share are applied to the HRA.

### Retained (1-4-1) Receipts

- 2.16 An agreement between the Council and the Government sets out the requirements for the Council to be able to access the retained (1-4-1) receipts, which would otherwise be paid to the Government. The most recent retention agreement requires that receipts must form no more than 40% of 'eligible' expenditure ('relevant for the permitted purpose'), the balance coming from other resources including borrowing and the Council's own resources. If the receipts are not used within five years, they must be returned to the Government with compound interest at 4% above the Bank of England base rate. Under the special arrangements for 2022/23 and 2023/24 the Government share of receipts is added to the retained (1-4-1) receipts.
- 2.17 Once the Council is certain that it no longer requires retained (1-4-1) receipts to support its new development plans it could voluntarily return these at the end of the year received and thereby reduce any interest liability that would arise if these receipts were not used and then compulsorily returned at the end of 5 years. Once returned these receipts cannot be reclaimed and the opportunity to support new build plans by up to 40% will have been lost. No voluntary returns have currently been assumed.



### Grant

- 2.18 Grant is included for CHBP schemes, where agreed as part of the Homes England programme.

### Other Receipts

- 2.19 This includes any other HRA (non-schedule) receipts or non HRA receipts available to support capital expenditure.

### MRR

- 2.20 The Accounts and Audit Regulations 2015 require “a relevant authority which is required by section 74(3) of the Local Government and Housing Act 1989 to keep a HRA, to include in the statement of accounts an account in respect of a reserve for major repairs to property of the authority to which section 74(1) of the Act applies (to be called a major repairs reserve).” This reserve includes a credit of an amount in respect of any charge for depreciation included in the HRA under the Item 8 Credit and Item 8 Debit (General) Determination 2017 (as amended).

### RCCO

- 2.21 To maximise the availability of revenue resources to support additional borrowing it has been assumed that no revenue contributions will be made to support the capital programme until 2030/31, by which time most of the current CHBP costs will have been incurred. After this time revenue balances can be used if this does not result in balances on the HRA falling below £1m.



### Borrowing

- 2.22 The Council borrowed £118.8m in 2012 to meet the self-financing settlement. The borrowing was undertaken with phased maturity dates continuing until 2036/37. The opening balance of these loans in 2023/24 is £86m. These are Public Works Loan Board (PWLB) fixed maturity loans with interest charged based on each specific loan. As no revenue resources have been assumed to support the capital programme until 2030/31, any shortfalls in resources are assumed to be met from additional borrowing using long term PWLB fixed maturity loans. Interest rate projections have been provided by Link Asset Services and are applied (based on 25-year borrowing) at 4.5% in 2024/25, 3.8% in 2025/26 and 3.6% thereafter. These rates assume that the concessionary rate of 40 basis points (0.4%) currently available to the HRA continues. When a loan matures, it is assumed that the loan will be refinanced until there are sufficient resources available in the plan to provide for repayment.



## 3. Changes to Previous Approved Business Plan

### Summary

- 3.1 The following table shows the changes to the annual opening balance on the HRA from the previous approved version to the latest base model. Many of the changes will impact the financing of the plan and the interest on balances. For clarity the table summarises all the financing and interest changes together. More details for each of the changes are provided in the sections below the table.

Opening Balance	Para	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31	2031.32	2032.33
		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cabinet approved</b>		<b>13,283</b>	<b>15,937</b>	<b>19,325</b>	<b>21,956</b>	<b>24,203</b>	<b>25,691</b>	<b>27,074</b>	<b>28,282</b>	<b>20,760</b>	<b>17,308</b>
Inflation	3.2		(110)	(228)	(267)	(295)	(324)	(357)	(387)	(408)	(444)
Budget Update	3.3		(300)	160	147	133	107	89	71	62	52
RTB New Arrangements	3.4		16	21	35	54	70	85	100	125	128
Interest Rate Forecast	3.5		(287)	(908)	(1,088)	(1,392)	(1,304)	(1,509)	(1,702)	(1,821)	(1,908)
Financing	3.6		(388)	907	994	981	955	939	841	1,451	5,801
Opening Balance	3.7		(11,394)								
Interest on Balances	3.8		265	88	114	148	213	235	303	215	79
Annual B/Fwd	3.9		0	(12,197)	(12,157)	(12,222)	(12,592)	(12,875)	(13,394)	(14,167)	(14,541)
<b>New Base Model</b>		<b>13,283</b>	<b>3,740</b>	<b>7,168</b>	<b>9,734</b>	<b>11,611</b>	<b>12,816</b>	<b>13,681</b>	<b>14,115</b>	<b>6,219</b>	<b>6,476</b>

### Changes

- 3.2 Forecast inflation for 2024/25 included in the approved model was 6% for RPI and 5% for CPI. These are increased in line with the September indices in the current plan to 8.9% and 6.7%. The costs to the business plan reflect expenditure increasing more than income.
- 3.3 The 2023/24 budget is applied to the business plan, the surplus is less than previously anticipated and reduces the opening 2024/25 balance. Estimates for 2024/25 have also been updated and these are used for future year forecasts. The line in the table includes updates to the loan portfolio at the 1 April 2023 in accordance with the latest advice from the Council's treasury team.



- 3.4 Changes to the arrangements for apportioning receipts from RTB sales were introduced for 2022/23 and 2023/24, in March 2023, to allow the Council to use the Government share of receipts provided these were used in accordance with the terms of the retention agreement. This provides additional receipts to support the CHBP. This is partly offset by the reduction in forecast RTB sales, which reduces the resources available to support the capital programme overall and increases the amount of additional borrowing required. The net effect is to marginally increase balances as the net additional resources reduce the requirement for borrowing and the related interest charges.
- 3.5 Despite the availability of concessionary interest rates for the HRA from the PWLB, the rates available for borrowing have grown significantly. Interest rates have been applied to the business plan based on the Council's latest projections, which have a significant impact on the business plan.
- 3.6 Changes to the borrowing requirements, availability of resources from the MRR and the use of revenue finance to support the capital programme are combined and recorded in the table as financing. The higher figures in 2031/32 and 2032/33 include the additional revenue contribution to support the capital programme and the use of the MRR to repay the maturing self-financing loan rather than repayment from revenue.
- 3.7 The opening balance on 1 April 2023 has been adjusted to reflect the repayment of self-financing loans originally anticipated to be refinanced. Although this is a one-off adjustment, it forms a significant part of the variance between the Cabinet approved plan and the latest base model as it is applied to each year's brought forward adjustment.
- 3.8 Wherever there are changes to the HRA operating position and movement in balances, the interest paid to the HRA (in accordance with the Item 8 credit arrangements) will change. This line summarises the interest on balances movement for all the above updates.
- 3.9 The brought forward adjustment relates to the movement in balances arising from the changes in earlier years and represents the cumulative impact of all the changes made.



## 4. Model Outputs and Analysis

### Introduction

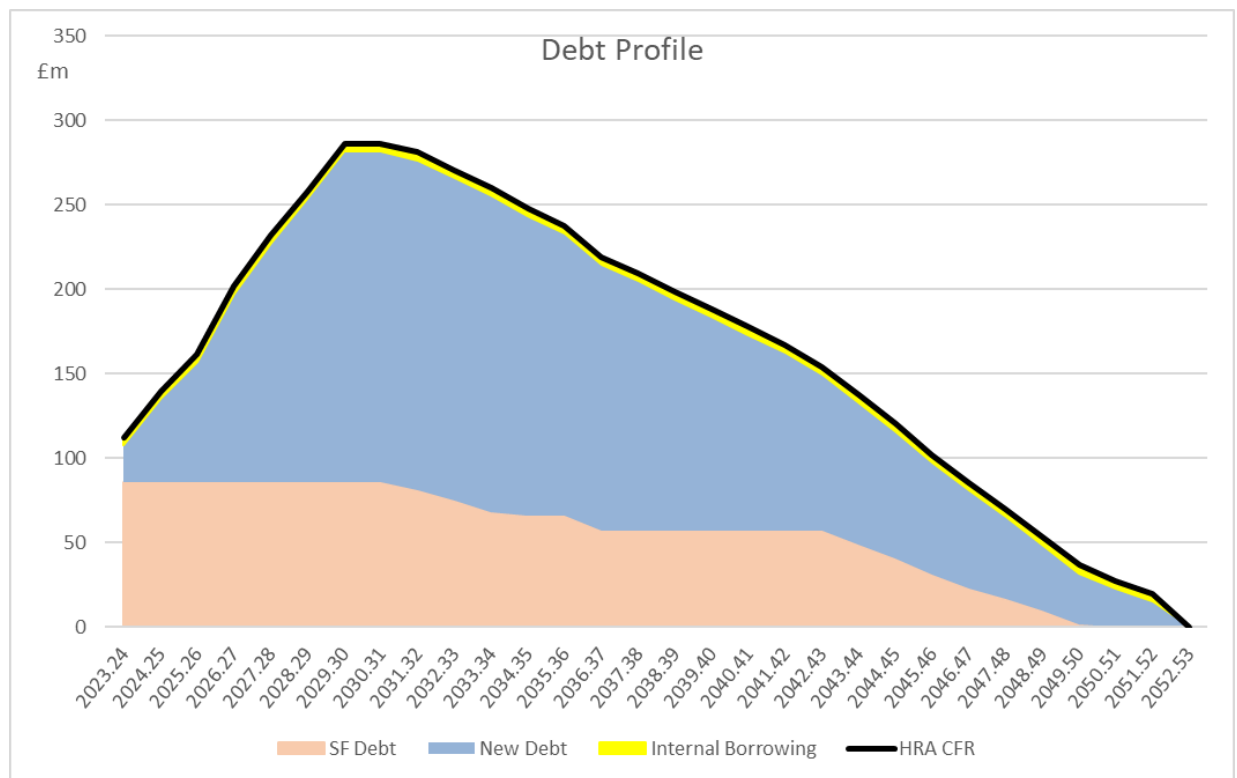
- 4.1 This section summarises the outputs to the business plan model, giving the latest picture of the current and forecast financial position of the HRA and its capital programme. It also quantifies some of the risks to the business both within and outside the control of the Council. To make viewing easier the tables are shown for the first ten years, which covers the duration of the CHBP, but the output analysis refers to the full 30-year period in recognition of the importance of long-term sustainability for the HRA.

### Capital Expenditure and Resourcing

	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31	2031.32	2032.33
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>CAPITAL EXPENDITURE</b>										
Major Works & Improvements	11,032	10,865	11,100	9,654	9,729	10,109	11,192	11,286	11,269	8,637
Works to promote decarbonisation	6,105	7,011	7,221	7,438	7,661	7,891	8,128	8,371	0	0
Development Schemes	42,171	35,021	21,674	48,818	40,607	32,021	27,132	13,715	3,202	80
ICT	11	12	12	13	86	14	14	14	15	15
<b>Total Expenditure</b>	<b>59,319</b>	<b>52,909</b>	<b>40,008</b>	<b>65,923</b>	<b>58,083</b>	<b>50,035</b>	<b>46,466</b>	<b>33,387</b>	<b>14,486</b>	<b>8,732</b>
<b>FINANCING</b>										
External Borrowing	21,785	27,503	22,050	40,097	30,020	26,377	27,756	0	0	0
RTB Receipts	525	596	620	645	671	698	726	754	783	813
Retained Receipts	6,995	3,486	1,429	1,489	1,552	1,616	1,683	1,765	928	0
Grant	4,169	3,455	1,980	5,448	4,770	2,970	2,700	360	0	0
Other Capital Receipts	1,239	5,769	1,271	5,090	7,404	3,994	2,751	2,024	1,743	1,957
Major Repairs Reserve	24,605	12,100	12,658	13,154	13,665	14,380	10,850	19,600	11,032	5,963
Revenue Contributions	0	0	0	0	0	0	0	8,884	0	0
<b>Total Financing</b>	<b>59,319</b>	<b>52,909</b>	<b>40,008</b>	<b>65,923</b>	<b>58,083</b>	<b>50,035</b>	<b>46,466</b>	<b>33,387</b>	<b>14,486</b>	<b>8,732</b>



4.2 The business plan calculates the additional borrowing requirements to meet any shortfall in resources to meet the capital programme. The borrowing is assumed at concessionary HRA rates based on the forecasts from the Council’s advisors (applied as a consolidated rate on an annual basis). This additional borrowing is used to resource the CHBP and programme of works for existing stock (including the decarbonisation plans) until 2029/30. In 2030/31 revenue balances are used to support the capital programme and no further borrowing is required. The additional annual borrowing requirements until 2029/30 total £196m and the revenue support for 2030/31 is £9m. During this time, the outstanding loans undertaken to meet the cost of self-financing are refinanced at maturity.





- 4.3 The Council's debt management strategy is to provide for repayment of debt once there are sufficient resources available in the plan, which commences in 2031/32. By using a combination of resources from the MRR and from revenue the Council can fully repay the additional borrowing and the residual self-financing loans over the course of the 30-year plan, leaving revenue balances of £34m. This provides a sustainable business model, against which the capital plans can be continually monitored. However, the model is dependent on maintaining balances and any decisions that reduce income or increase expenditure could not only affect the provision for debt repayment but also the capacity for new development in the future.
- 4.4 The business plan assumes that as soon as additional resources are available in the HRA these will be used to provide for the repayment of debt. In practice, whether the loans are repaid will be subject to corporate treasury decisions and will affect the HRA capital financing requirement (HRA CFR), which could have implications for the Council's overall financing requirement.



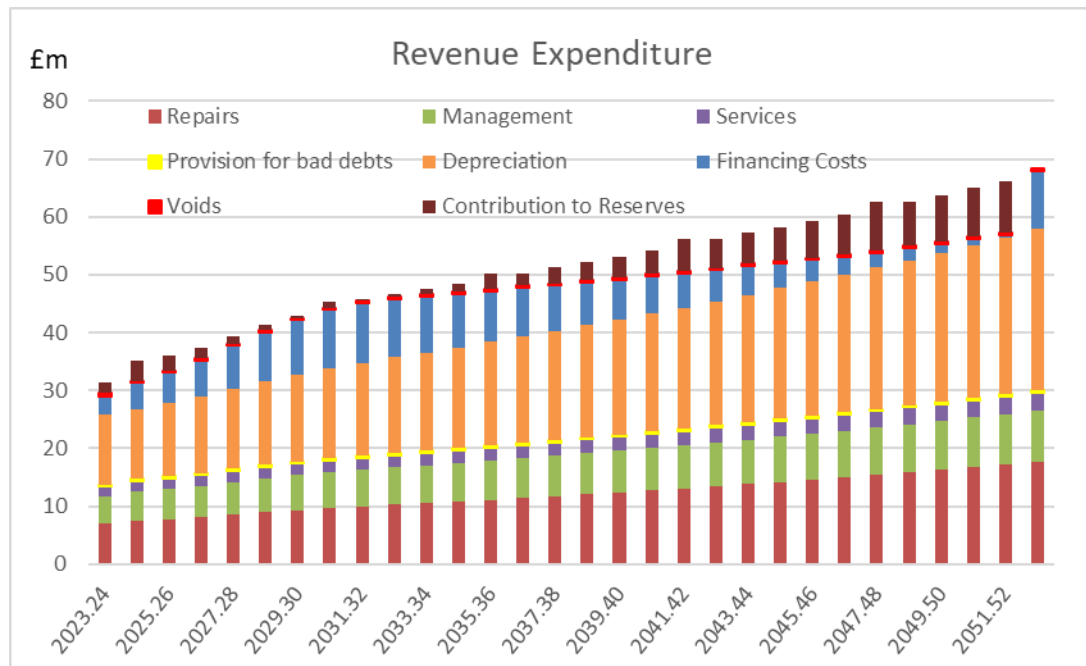


## Revenue Projections

	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31	2031.32	2032.33
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>INCOME AND EXPENDITURE ACCOUNT</b>										
<b>Income</b>										
Dwelling Rents	28,542	32,066	32,920	34,231	36,027	37,929	39,508	41,729	42,074	42,947
Voids	(619)	(257)	(262)	(271)	(282)	(293)	(303)	(318)	(319)	(326)
<b>Net Rents</b>	<b>27,923</b>	<b>31,809</b>	<b>32,658</b>	<b>33,960</b>	<b>35,746</b>	<b>37,636</b>	<b>39,205</b>	<b>41,411</b>	<b>41,755</b>	<b>42,621</b>
Non Dwelling Rents	405	425	438	451	465	479	493	508	523	539
Charges for services and facilities	1,132	1,200	1,236	1,273	1,311	1,351	1,391	1,433	1,476	1,520
Contribution towards expenditure	1,201	1,226	1,263	1,301	1,340	1,380	1,422	1,464	1,508	1,554
Other Income	141	132	136	140	145	149	153	158	163	168
<b>Expenditure</b>										
Repairs and maintenance	(7,134)	(7,521)	(7,782)	(8,113)	(8,595)	(8,962)	(9,336)	(9,687)	(9,995)	(10,269)
Supervision and management	(4,609)	(5,006)	(5,163)	(5,343)	(5,630)	(5,821)	(6,012)	(6,179)	(6,310)	(6,413)
Special services	(1,654)	(1,829)	(1,866)	(1,903)	(1,941)	(1,980)	(2,019)	(2,060)	(2,101)	(2,143)
Provision for bad debts	(370)	(370)	(370)	(370)	(370)	(370)	(370)	(370)	(370)	(370)
Depreciation	(12,100)	(12,100)	(12,658)	(13,154)	(13,665)	(14,380)	(14,943)	(15,508)	(16,043)	(16,524)
<b>Net (Cost) of Services</b>	<b>4,935</b>	<b>7,967</b>	<b>7,893</b>	<b>8,243</b>	<b>8,805</b>	<b>9,483</b>	<b>9,985</b>	<b>11,171</b>	<b>10,607</b>	<b>10,682</b>
Interest payable	(3,477)	(4,718)	(5,545)	(6,630)	(7,939)	(8,986)	(9,992)	(10,522)	(10,527)	(10,279)
HRA investment income	393	179	219	265	339	368	442	339	177	189
<b>Surplus / (Deficit) for the year</b>	<b>1,851</b>	<b>3,428</b>	<b>2,566</b>	<b>1,878</b>	<b>1,205</b>	<b>864</b>	<b>435</b>	<b>988</b>	<b>257</b>	<b>592</b>
<b>MOVEMENT IN THE HRA BALANCE</b>										
Surplus / (deficit) for the year	1,851	3,428	2,566	1,878	1,205	864	435	988	257	592
Capital Expenditure funded by the HRA	0	0	0	0	0	0	0	(8,884)	0	0
Increase/(decrease) in the HRA balance	1,851	3,428	2,566	1,878	1,205	864	435	(7,896)	257	592
HRA Balance Brought Forward	1,889	3,740	7,168	9,734	11,611	12,816	13,681	14,115	6,219	6,476
HRA Balance Carried Forward	3,740	7,168	9,734	11,611	12,816	13,681	14,115	6,219	6,476	7,067



- 4.5 The revenue projections show the cost of borrowing increasing over the CHBP investment period. However, there is sufficient operating income to be able to meet those costs and retain an annual surplus, which ensures that the minimum revenue balance is maintained. After the end of the CHBP, no additional borrowing is required so revenue resources provide for the repayment of borrowing. This reduces the interest payable, which increases the annual surplus and builds on the reserve to allow further provision for repayment. The combination of the use of revenue resources and MRR to provide for debt repayment keeps revenue balances at between £20m and £25m in the longer term. Balances increase in the last few years of the business plan allowing for an additional revenue provision to be made in the final year of the plan (2052/53) to fully repay the outstanding debt including the internal borrowing that the HRA has with the General Fund. This reduces the revenue balance at the end of the plan to £34m.
- 4.6 The business plan is sensitive to changes particularly at the start of the plan as a change to year 1 has an impact for the remainder of the 30 years. Maintaining the revenue balances provides for debt repayment if the current forecast is achieved. Any local decisions to reduce income or increase expenditure would inhibit this plan, reducing the ability to provide for debt repayment. In particular, the effect of lower rent increases (local decision or regulated) would have significant consequences for the business (as assessed in the analysis of the risk in relation to rents below).
- 4.7 The following chart illustrates how the Council plans to use its HRA income to meet revenue expenditure over the course of the 30-year business plan.



4.8 As noted above, the financing costs in the final year of the plan (2052/53) include the use of revenue resources to repay loans, as a result in that year there is no contribution to reserves.

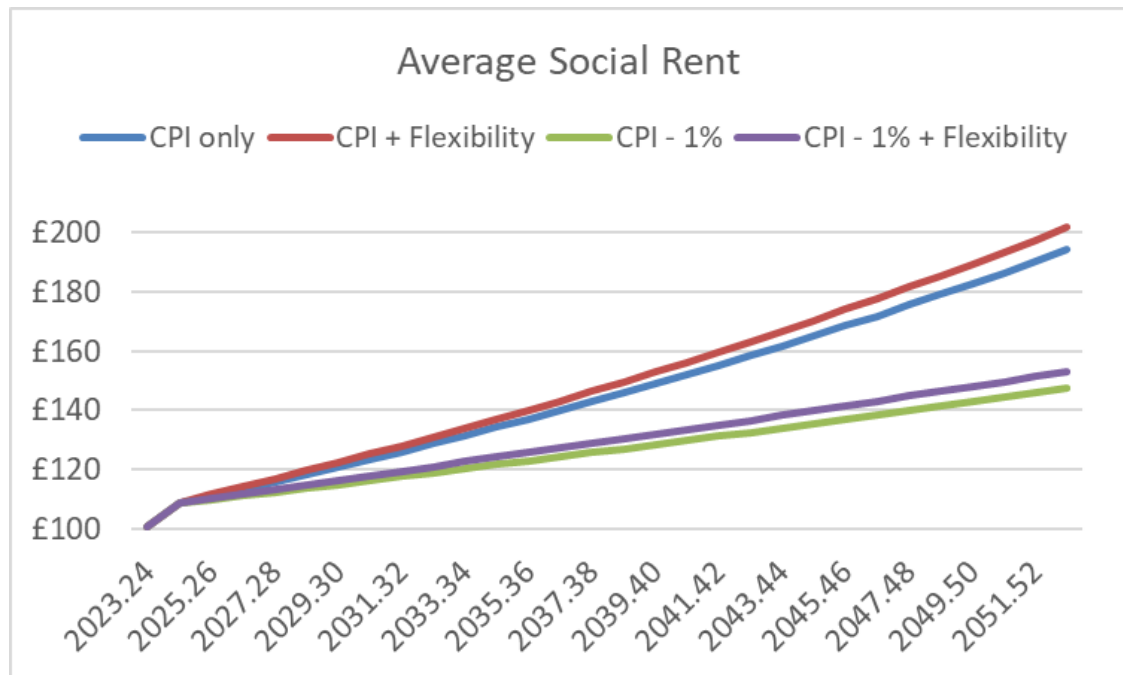
## Risks

4.9 Sensitivity tests have been applied to the base model to assess the impact of changes to the forecasts. Each test has been undertaken against the base model, except where considered as a compensating adjustment to mitigate any negative impact on the business plan. The risk to the business plan is likely to result from a blend of changes, the further in the future the forecast the more changes are likely. This analysis considers some of these risks but the impact of a combination of tests will not necessarily be equal to the sum of the individual tests.



## Rents

- 4.10 Social rents are regulated through the policy statement and Rent Standard. Restrictions on annual increases are applied through the regulations so there is no option to increase charges for existing tenants beyond the regulation allowed increase. The Council have assumed that this increase will be limited to CPI only from 2025/26 but the Government could (and have previously) provided additional constraints on rents. A test has therefore been undertaken to show the impact of rent increases limited to CPI – 1% from 2025/26. Although this is less likely than CPI only increases it is not outside the scope of the regulatory requirements.
- 4.11 Given the experience of the impact of rent reductions between 2016 and 2020, it is not a surprise that an annual 1% reduction in rents compared to the base model has a significant impact on the business plan. All other things being equal, the cost is about £195m over the 30-year plan. The HRA goes into deficit by 2028/29 and with increasing deficits each year, there is a shortfall in resources to meet the capital programme in 2030/31 and revenue balances fall below the Council's minimum required balance in 2031/32. If the Council were setting this budget in 2031/32 it would not meet the statutory requirement for a balanced budget. This analysis is based on the borrowing for the capital plans remaining unchanged. In practice, it is unlikely that the Council would wish to commit to borrowing where the HRA was unable to meet the future financing costs (as ultimately these would become a cost to the General Fund). Further consideration is given below to how the Council may address this risk.
- 4.12 There are some opportunities for the Council to mitigate the risks of rent regulation. A formula rent for each social rented property is calculated with reference to the January 1999 value, bed size and location. Flexibility can then be applied to the formula rent (up to 5% for general needs and 10% for supported housing) where there is a clear rationale that takes account of local circumstances and affordability. It is understood that some local authorities are using the flexibility with justification based on funding decarbonisation works (which are additional to planned capital works), which will reduce future energy costs but it is unclear how this is viewed by the Regulator of Social Housing. Restrictions on annual increases are applied through the regulations so there is no option to increase charges for existing tenants beyond the regulation allowed increase. For new tenancies, the Council can (and does) re-let at the formula rent, so there is potential for actual rent to be set taking account of the available flexibility. The use of formula rent flexibility would be beneficial to the business plan and could be considered whether or not additional constraints are applied to future rent increases.



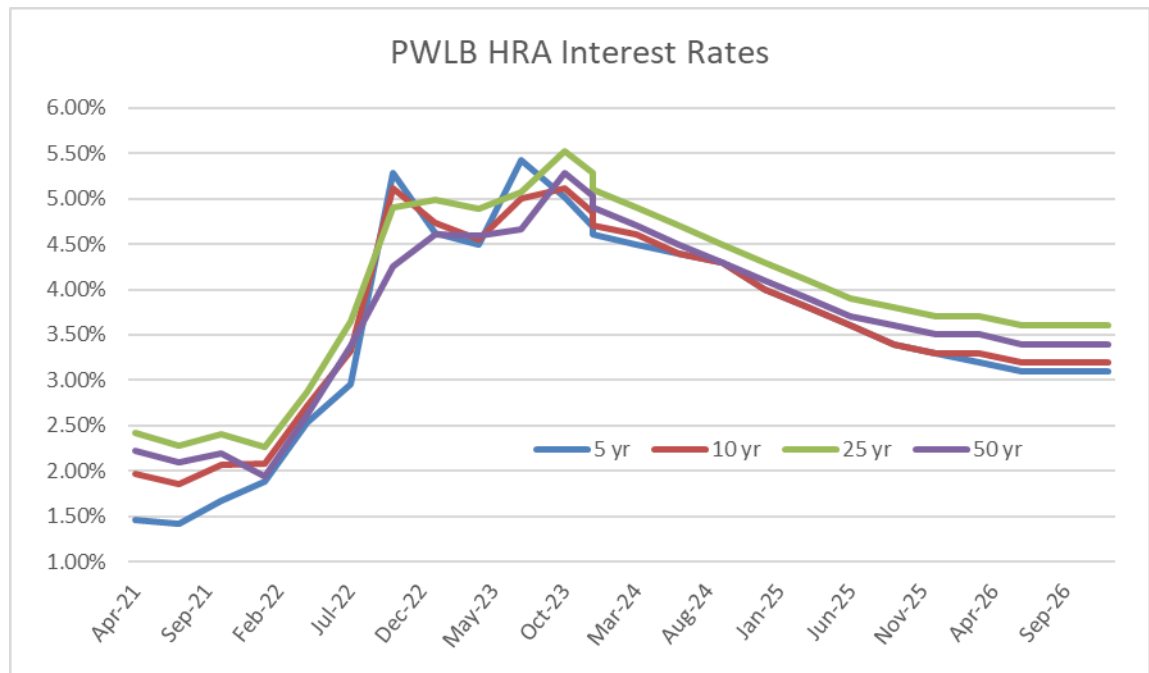
- 4.13 The use of formula rent flexibility to mitigate the impact of maximum increases of CPI - 1% from 2025/26 offsets the cost (of CPI – 1% rent increases) by about £24m over the 30-year plan. The HRA still goes into deficit by 2028/29 with increasing deficits each year but there are enough resources to meet the capital programme in 2030/31. However, revenue balances still fall below the Council’s minimum required balance in 2031/32.
- 4.14 The Council may wish to consider other options for generating income through rents. It is possible to increase the January 1999 value for major works (to increase the formula rent) but these are exceptional cases as defined in the policy statement: “As the price base is constant, the valuation of a property for social rent purposes should generally remain the same over time. However, a registered provider may re-value where it has carried out major works that materially affect the value of the property. This is only likely to arise in exceptional circumstances, as ‘major works’ do not include normal stock management activity such as repairs, maintenance or updating of properties (for example, fitting new kitchens or bathrooms). Major structural alterations (such as adding an extra room or extension) would be an example of ‘major works’ for the purposes of this paragraph.” Any such changes are likely to have a minimal impact on the business plan. It is also possible for the Council to charge up to market rents for ‘high income’ tenants but although this option is available, it has not been used by other authorities.



- 4.15 The Council could also choose to reduce its debt repayments. Debt repayments are limited to only those that can be met using available resources in the MRR to limit any impact on the revenue balances (although the restriction on rents still creates long term annual HRA deficits). This leaves a shortfall in resources available to meet the capital programme of £55m between 2027/28 and 2029/30. Consideration has been given to reducing the CHBP to try and balance the business plan but the consequent loss of new build units and the risk of interest payments on returned 1-4-1 receipts create a deficit on the revenue balances. As the business plan modelling is predicated on a balanced position being achieved, where there is a shortfall in resources to meet the capital plans but the plans are still included, the revenue implications reflect this and are, therefore, not recorded here.
- 4.16 The analysis shows that the costs of rent constraint can be partly offset through the actions above but ultimately an ongoing annual deficit on the HRA is not a sustainable business model in the long term. It is important to recognise that where costs are subject to inflationary increases and rent income is constrained at less than inflation it is very unlikely that any local authority could continue to balance its HRA.

#### Interest

- 4.17 Interest rate projections have been provided by Link Asset Services and represent their latest forecasts, which have been discounted in line with the concessionary rate available for the HRA from the PWLB. A recent announcement from the Treasury extended the availability of the concessionary rate until June 2025.



4.18 If the availability of the concessionary rate ends in June 2025, there remains sufficient revenue balance in the final year of the plan (2052/53) to make provision for the full repayment of the outstanding debt including the internal borrowing that the HRA has with the General Fund. The revenue balance at the end of the plan is reduced to £7m (compared to £34m in the base model) indicating that the additional 40 basis points on borrowing after 2025/26 has a cost of £27m over the planning period.

In the light of the recent volatility in interest rates and the impact on the business plan of the updated forecasts (shown in the changes to the previously approved plan), an additional 1% on the forecast rates has been tested. The additional revenue costs of the borrowing result in annual HRA deficits from 2027/28 and a shortfall in resources to support the capital programme in 2030/31. The revenue contribution from 2030/31 has been removed, which maintains minimum balances until 2031/32. For some time thereafter the revenue balance is negative. To rebalance the revenue account would require additional income or savings. One option for the Council would be to apply the formula rent flexibility as detailed for offsetting rent constraint in the analysis above. This reduces the annual HRA deficits and removes the negative HRA revenue balance (although the revenue balance is critically low in 2034/35). The annual revenue account moves to a surplus from 2037/38 and the balance continues to increase, which provides for debt repayment. The balances are, however, not sufficient to repay all the debt with £14m remaining at the end of the plan.



4.19 The business plan model measures the viability of the forecast HRA over 30 years. There are varied methods for assessing the robustness of the plan, which include the resourcing of the capital programme, net operating costs, gearing of asset value: debt and the interest cover ratio. Some commentators have promoted the latter (at 125%) to the “golden rule” as it is used by housing associations as a requirement of their loan covenants. In the Cabinet approved plan, it was recognised that during and shortly after a substantial development programme lower than 125% cover was often the norm. The interest cover ratio compares the net cost of services to the interest payable (see the table on revenue projections). The base model has a lower ratio between years 2027/28 and 2034/25. To increase the ratio above 125% requires either reduced interest charges or a reduction to the net cost of services (increased income or reduced expenditure).

Reducing the interest charges, assuming no change to the rates available, would require reductions in borrowing. Given the limited available resources in the first ten years of the plan, this would require a reduction in capital expenditure. Non-specific schemes from CHBP phases 3.7 to 3.10 and the affordable rent scheme from phase 3.6 have been removed. This reduces the borrowing requirements from 2025/26. As there is less borrowing, interest costs are down and less resources from the MRR are needed to provide for the repayment of debt in later years. Outstanding debt is fully repaid by the end of the plan and revenue balances increase to £88m (from £34m in the base model). Removing these phases from the CHBP is expected to reduce the number of new homes delivered to 637.

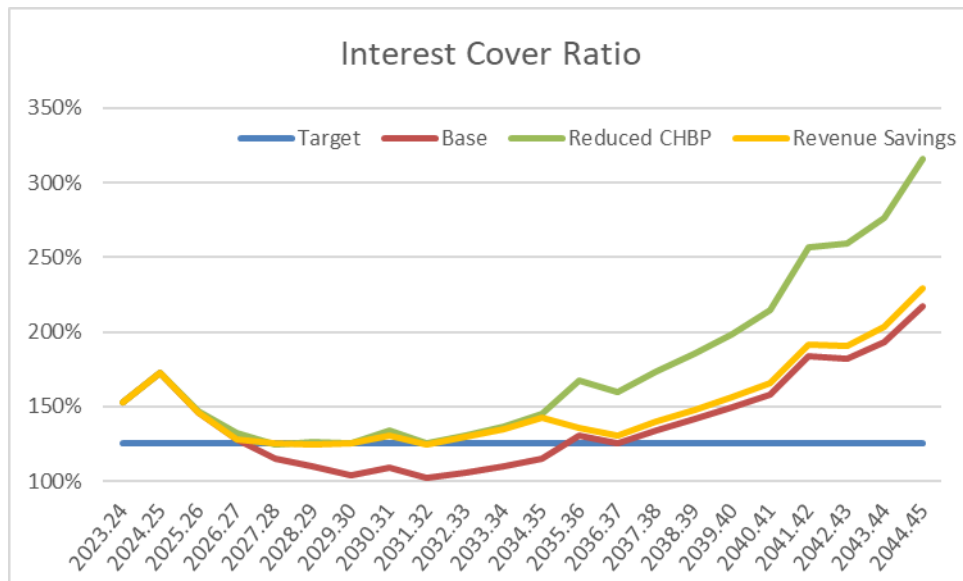
To reduce the net cost of services, the Council could consider the use of formula rent flexibility (as noted above) and / or savings in expenditure on the management and maintenance of the Council’s stock. The annual savings (or additional income) required compared to the base model are as follows:

Year	Savings Required to meet Interest Cover Ratio of 125% £m
2027/28	0.8
2028/29	1.3
2029/30	2.0
2030/31	2.0
2031/32	2.2
2032/33	2.2
2033/34	2.2
2034/35	2.2
<b>Total</b>	<b>14.9</b>





- 4.20 The savings increase the annual surplus in the years applied and consequently the interest cover ratio. There are no other changes and the outstanding debt is fully repaid by the end of the plan with revenue balances increased to £61m (from £34m in the base model). The increase represents the savings and additional interest received on balances over the 30-year plan.



4.21 In practice, to consistently achieve an interest cover ratio of 125% would require regular review of borrowing requirements for the capital plans and monitoring of the operating position of the HRA.

### Summary

4.22 The analysis in this section shows the business plan outputs using the previously approved CHBP and the latest estimates. This forms the 'base' business plan. To consider the risks of regulatory and economic changes, sensitivity tests have been undertaken. The output analysis is shown below.

Business Model	Revenue Balance at Year 30 £m	Debt Outstanding at Year 30 £m
Base	34	0
Rent Constraint at CPI - 1% *		
Removal of Concessionary HRA rate	7	0
Interest rates + 1% offset by rent flexibility	1	14
Reduced CHBP to meet interest cover ratio	88	0
Revenue savings to meet interest cover ratio	61	0

\* Accurate outputs are only available where the business plan is balanced over 30 years. The analysis of rent constraint shows this is not achieved and comparable outputs are therefore not available.



## 5. Conclusions

- 5.1 The base business model shows a sustainable long term HRA that supports the Council's current CHBP and existing stock capital plans. Repayment of new borrowing and the existing self-financing loans is achieved over the course of the planning period and revenue balances are maintained above the minimum required level throughout with a balance of £34m at the end of the plan. The Council have taken a prudent approach to future rent increase regulations, which adds to the robustness of the current model.
- 5.2 The "what if?" analysis has shown that the base plan has some resilience to adverse economic and regulatory changes. If interest rates increase above the forecast levels, the Council can maintain a viable business plan, if it is able to apply formula rent flexibility across all its stock. If the Council decide to apply a required interest cover ratio of 125% for each year, this can be achieved by removing later phases of the CHBP that are unspecified. However, if the Government were to impose an additional restriction on rents with increases at a maximum of CPI -1%, a balanced business plan is not sustainable in the long term.
- 5.3 The analysis reflects the Council's debt management strategy to provide for debt repayment once resources are available. This is dependent on maintaining revenue balances at the planned levels and any decisions that reduce income or increase expenditure could not only affect the provision for debt repayment but also the capacity to consider new development in the future. Testing shows that it may not always be possible to provide for the repayment of debt so to ensure sufficient resources are retained in the HRA a more flexible approach may be required to manage future capital plans.
- 5.4 The business plan provides a forecast based on the information available. It is designed as a tool to help inform strategic decisions by recognising the long-term financial impact on the HRA. In practice, there will be many changes both within and outside the control of the Council, which will require regular review and reflection in the financial model.

