

REPORT TITLE: HRA BUSINESS PLAN AND BUDGET OPTIONS

19 NOVEMBER 2025

REPORT OF CABINET MEMBER: CLLR MARK REACH – CABINET MEMBER FOR GOOD HOMES

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WARD(S): ALL

PURPOSE

The purpose of this report is to offer budget options to maintain the council's policy objectives to go greener faster, address the cost-of-living crisis and maintain the commitment to deliver 1000 new homes while maintaining a sustainable financial business plan.

Continuing uncertainty surrounding Public Works Loan Board (PWLb) interest rates, and in particular the increases in borrowing costs in Summer of 2025 means that new homes viability continues to be challenging, and budgetary pressures arising from a tighter compliance regime continue to put pressure on the HRA budget.

However, there have been developments in the legislative environment which have been designed to promote the government's wider agenda to deliver over 1m houses, which have helped ease some of these pressures in the longer term, and these are explored in this report.

The budget options contained in this report support the council's commitment to increase investment in customers' homes to go greener faster and to deliver the 1000 new homes programme by 2032/33.

To achieve these policy objectives and set a viable and sustainable HRA business plan, several budget options have been identified for consideration, development and consultation with customers. Subject to the development and consultation those options will be decided by Cabinet when the Housing Revenue Account budget is considered in February 2026.

**RECOMMENDATIONS:**

1. Note the draft HRA Business 30-year Plan for 2025-26 to 2055-56 metrics shown in Appendix 3 and current 5 year projection at Appendix 1
2. To note the business plan pressures identified in the 2025/26 business planning exercise as outlined in paragraphs 11.41 to 11.51, totalling £1.26m one off pressures and £1.2m ongoing pressures.
3. To approve the budget options outlined within this report and detailed at Appendix 2 as a basis for consultation to inform the February budget setting, including potential options for rent convergence in line with government proposals.
4. To approve the allocation of £0.12m per annum to support upgrades to the asset and property management systems, including reprofiling £0.02m from the one-off investment budget set in the 2023/24 business plan to cover initial preparatory costs in 2025/26, with clearer estimates of project management costs for 2026/27 to be included in the February budget report..
5. To approve a change in the calculation of interest on internal borrowing and lending between the General Fund and HRA namely to equalise the interest rate at the PWLB 3 month variable loan rate for both borrowing and lending as outlined at paragraphs 11.34 to 11.36.
6. Note the assumption in the business plan for New homes is aligned to the Housing Development Strategy.
7. Note the current financial viability assessment for new build from para 11.16 to 11.22
8. Note that quantified revenue savings of £0.892m, and capital savings of £0.25m outlined in Appendix 2, have been identified to assist with bridging the forecast gap in annual HRA budgets.
9. Note the proposed assumptions and timescale for asset disposals outlined in paragraphs 11.62 to 11.64.
10. Note that based on the September 2025 CPI figure of 3.8% that the average formula rent increase for 2025-26 for all affordable and social housing will be 4.8%
11. Note that the government is consulting on rent convergence criteria which indicates preference to increase rents above CPI+1% for social rent tenants below formula rent levels, with announcement expected as part of the wider Budget on 26<sup>th</sup> November 2025.
12. To approve the principle of full cost recovery in tenant service charges (other than sewage treatment works) in 2026/27.

13. Note that, following implementation of options, the draft HRA Business 30-year Plan is viable and sustainable and has the capacity to support the council's ambitious delivery of 1,000 new affordable homes by the end of 2031/32

IMPLICATIONS:1 COUNCIL PLAN OUTCOME

## 1.1 Greener Faster

Carbon reduction measures are in place through investment of over £40m in the existing stock, ensuring that all properties meet EPC-C or above by 2031; that energy efficiency measures are incorporated in the design and construction of new build properties; and that energy efficiency is a key criteria when considering acquisitions of new properties.

## 1.2 Thriving Places

Delivering affordable accommodation allows people to live and work within the district and contribute to the local economy.

## 1.3 Healthy Communities

The wellbeing of residents is considered within the design of new properties and new homes are designed to be energy efficient and to ensure needs of residents are met. Tenant satisfaction measures are in place and regularly monitored.

## 1.4 Good Homes for All

The HRA business plan, and its links with the Housing Development Strategy aims to increase the stock of affordable homes across the Winchester district, meeting the council's objective to provide a range of tenures to meet demand.

## 1.5 Efficient and Effective

One of the key objectives of the Housing Strategy is to modernise the customer service offer through the development of a digital first customer journey, improving communication and self-service options for tenants/residents, and efficiency of services.

## 1.6 Listening and Learning

Housing tenants are directly involved in decisions regarding services provided, through the work of Tenants and Council Together (TACT), the councils tenant involvement group and through regular tenant and leaseholder digital surveys, capturing wider tenant views. The service continues to review options to provide improved customer experience, better engagement and increased satisfaction with services provided.

2 FINANCIAL IMPLICATIONS

## 2.1 Financial implications are detailed from section 11 of the report and accompanying appendices.

### 3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 Under part VI of the Local Government and Housing Act 1989 any local authority that owns housing stock is obliged to maintain a Housing Revenue Account. The HRA is a record of revenue expenditure and income in relation to an authority's own housing stock. The items to be credited and debited to the HRA are prescribed by statute. It is a ring-fenced account within the authority's General Fund, which means that local authorities have no general discretion to transfer sums into or out of the HRA.
- 3.2 The council is required to prepare proposals each year relating to the income of the authority from rents and other charges, expenditure on repairs, maintenance, supervision and management of HRA property and other prescribed matters. The proposals should be made on the best assumptions and estimates available and designed to secure that the housing revenue account for the coming year does not show a debit balance and is sustainable in the long term. The report sets out information relevant to these considerations.
- 3.3 Section 76 Local Government and Housing Act 1989 places a duty on local housing authorities: (a) to produce, and make available for public inspection, an annual budget for their HRA which avoids a deficit; (b) to review and if necessary, revise that budget from time to time and (c) to take all reasonably practicable steps to avoid a deficit on the working balance.

### 4 WORKFORCE IMPLICATIONS

- 4.1 The HRA business plan includes sufficient resources to maintain the proposed staffing establishment for 2025/26 and beyond. None of the proposals in this report have any workforce implications.

### 5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 To meet one of the key principles of the council plan, the HRA is required to provide sufficient financial resources to both maintain existing stock to decent homes standard and to enable new affordable housing to be obtained to help meet local demands.

### 6 CONSULTATION AND COMMUNICATION

- 6.1 A meeting of the TACT board is taking place on the 18 November to review the budget gap and savings proposals. Subject to the decision of cabinet on If the savings proposals within this report are accepted, they will be subject to consultation with all engaged tenants through a variety of means. The results of that consultation will be reported to Cabinet to take into consideration when agreeing the HRA budget at their meeting in February.

## 7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 This year's proposed 30 year business plan ensures sufficient provision of £41.9m to fund the retrofit programme of works. During 2024/25, 57 houses were upgraded, and a further 195 properties are expected to be upgraded by 31<sup>st</sup> March 2026, which would equate to 69% of the stock meeting EPC -C standard. Following the successful award of SDHF funding in 2025, a further 240 properties in 2026/27 and 237 in 2027/28 are expected to be upgraded, meaning that at least 78% of stock will meet EPC-C by March 2028.
- 7.2 The Business Plan also funds the provision of sufficient staffing resources to deliver the retrofit programme.
- 7.3 The Housing Service considers environmental factors when preparing and developing major projects e.g., working closely with Planning and Landscape Officers when considering new build developments to meet the required codes for sustainable housing.

## 8 PUBLIC SECTOR EQUALITY DUTY

- 8.1 This document is part of the budget consultation process, and the public sector equality duty is considered alongside any relevant budget options. The housing service holds data in respect of its tenants' protected characteristics. The impact of the proposals will be addressed in relation to tenants who have protected characteristics following consultation and consideration for reporting to cabinet at its February meeting.

## 9 DATA PROTECTION IMPACT ASSESSMENT

- 9.1 All proposals set out within the report and the capital programme will be subject to individual data protection impact assessments.

## 10 RISK MANAGEMENT

<b>Risk</b>	<b>Mitigation</b>	<b>Opportunities</b>
<p><i>Property</i></p> <p>That Council owned dwellings fail to meet decent home standards</p> <p>That more robust standards are introduced but not effectively implemented</p>	<p>An effective programme of future works and sound financial planning ensures that resources are available to ensure standards are met and then maintained.</p> <p>A full stock condition survey is being undertaken to ensure a full understanding</p>	<p>Self-Financing provides certainty around future resource allocations and facilitates better supply chain management</p>

	<p>of the stock and to inform future works and business plans</p> <p>That repairs staff are adequately qualified to ensure legislation is understood and planned in.</p>	
<p><i>Community Support</i></p> <p>Lack of consultation will affect tenant satisfaction and cause objections to planning applications for new build developments.</p>	<p>Regular communication and consultation is maintained with tenants and leaseholders on a variety of housing issues.</p> <p>The Council consults with local residents and stakeholders on proposed new build schemes.</p>	<p>Positive consultation brings forward alternative options that may otherwise not have been considered.</p>
<p><i>Timescales</i></p> <p><i>Delays to new build</i> contracts may result in increased costs and lost revenue.</p>	<p>New build contracts contain clauses to allow the Council to recover damages if the project is delayed due to contractor actions.</p>	
<p><i>Local Government Reorganisation</i></p> <p><i>The impact of local government reorganisation on the HRA specifically is not yet known. However, there is a risk that decision making beyond September 2026 may be delayed if authorisations are required from Secretary of State and/or the new organisation.</i></p>	<p>Capacity exists in the Business Plan working balance to ensure planning for transition of the HRA to a new authority is resourced, and consideration will be given to the resource requirement during 2025/26.</p>	
<p><i>Project capacity</i></p> <p>The HRA can borrow funds in addition to utilising external receipts and reserves, but it must be able to service the loan interest arising.</p>	<p>Regular monitoring of budgets and business plans, together with the use of financial assessment tools enables the Council to manage resources effectively.</p>	<p>The Council inputs and monitors government consultation on the use of RTB receipts and potential capital grant funding.</p>

<p><i>Financial / VFM</i></p> <p>Risks, mitigation, and opportunities are managed through regular project monitoring meetings.</p> <p>Insufficient new build sites are identified to assign RTB 1-4-1 receipts financing to and RTB receipts are required to be repaid to Central Government with a compounded interest penalty based on current rates.</p>	<p>New build Schemes are financially evaluated and must pass financial hurdles and demonstrate VFM. Total Scheme Costs contain provision for contingency on build costs and on fees for new build developments that take account of potential residual development and sales risk.</p> <p>RTB 1-4-1 are closely monitored so in-year targets for new builds are known.</p>	<p>In addition, the HRA holds annual minimum levels of reserves based upon operating turnover and capital programme spend.</p> <p>Government has introduced measures to improve flexibility in the use of RTB receipts, and proposed changes to the scheme which will likely reduce this risk.</p>
<p>Risk that the council cannot deliver the programme of new build and meet the objective of 1000 homes in 10 years because of the lack of sites, the cost of development or the cost of financing this development.</p>	<p>The new homes programme is monitored on a regular basis and if appropriate could be delayed or re-profiled in light of the availability of these resources</p>	<p>Acquisition strategy allows the Council to continue to add to its stock where building cannot be made viable.</p> <p>Changes to the RTB scheme may improve viability of some projects.</p>
<p><i>Staffing resources (not always in Housing) reduce the ability to deliver key objectives within the Capital and New Build programmes, as well as the wider HRA.</i></p>	<p>Staffing resources have been reviewed to support the delivery of the new build programme. Interim resources to support compliance works where appropriate.</p>	<p>Given the challenging nature of the HRA, it may be necessary to review the resourcing requirements needed.</p>
<p><i>Interest rate volatility</i></p> <p>There is a risk of volatility or continuing higher borrowing costs, impacting on the viability of existing and forthcoming capital schemes.</p>	<p>The HRA has cash reserves that allow it in the short term to effectively borrow from internal resources giving a period for interest rates to stabilise and reset and the fiscal environment to be more benign.</p>	<p>The use of internal borrowing can help to reduce the short-term cost of borrowing as well as delay the need to seek external finance and delivers better overall returns to the HRA. At the point internal borrowing is no longer feasible, a cautious</p>



		assumption has been made for future borrowing costs in the business plan.
<p><i>Legal</i></p> <p>The provision of social housing is a statutory requirement.</p> <p>Changing Government priorities place a greater emphasis on social housing which must be monitored and considered both for existing stock and also within planning of future new build projects</p>	<p>Government statutory requirements and policy changes are being monitored to identify any new risks or opportunities that they may bring.</p>	<p>To create new housing developments within new guidelines and drawing on innovative thinking.</p>
<p><i>Reputation</i></p> <p>Failure to complete major housing projects due to lack of resources would have a direct impact on both customer satisfaction and the Council's reputation.</p>	<p>Business planning tools with regular updates are utilised to make sure resources are available to complete projects.</p>	
<p><i>Other</i></p> <p>– Environmental regulation such as that by Natural England on mitigating Phosphates</p>	<p>This delays the ability to bring forth schemes with planning permission and delays increase the cost and viability of schemes.</p>	

## 11 SUPPORTING INFORMATION:

- 11.1 The HRA Business planning process is completed annually and all assumptions are revisited and undertaken afresh every year. To set a viable and sustainable business plan for the next 30 years remains challenging.

### **Economic outlook**

- 11.2 At the time of setting the 2025/26 Budget, inflation had reduced to 2.8% in February 2025, and the Bank of England base interest rate had reduced to 4.25% by May 2025. CPI inflation has since increased over the course of 2025 to 3.8% in August 2025, largely driven by food and energy prices. The Bank of England expect this to be temporary and fall back to the target rate of 2% in the medium term. Construction industry BCIS inflation during 2025 has been relatively stable at 2.3% as at Quarter 2 2025.

- 11.3 The Chancellor's November budget is anticipated on 26<sup>th</sup> November 2025. The government has already confirmed the continuation of CPI+1% rent setting policy; however, it is expected that the government will confirm the level of rent convergence that may be applied and which forms part of the savings measures. Any other measures in the Budget that impact on Housing will be considered and addressed within the February budget papers.

### **Rent setting**

- 11.4 The council must set its rents in line with the Rent Standard and the Regulator of Social Housing's rent setting guidelines. The Council's strategy for rent will be to maximise income to the HRA business plan within the legislative framework.
- 11.5 The basis of rent setting between 2026/27 and 2032/33 assumed in business plan based on existing legislative framework, is CPI+1%. The government consulted on future social rent policy during 2024, and following that consultation has confirmed that social rent policy will be based on CPI+1% for 10 years from April 1 2026. Options for rent convergence, to ensure in the medium term all tenants on social rents are paying full formula rent, are still being consulted. Based on September CPI of 3.8%, the rent increase in 2025/26 will be 4.8%.
- 11.6 A CPI+1% rent increase would mean the average weekly social rent for existing tenants will be £133.43 a week, an increase of £6.29 per week. The average weekly affordable rent for existing tenants will be £210.66 a week. Although the average rent has gone up in line with CPI, the overall average has risen and this is a result partially due to social rents being relet at formula rents. Affordable rents have increased due to increases in market rental values, raising the rents when relet. The impact of the increases is shown in table 1 below.

**Table 1- indicative weekly rents in 2026-27 compared to 2025-26 for existing tenants**

<b><u>Social Rents</u></b>								
Size	Bedsit	Bedroom 1	Bedroom 2	Bedroom 3	Bedroom 4	Bedroom 5	Bedroom	Total
Avg Wkly Rent 2025-26	91.34	111.16	127.77	144.33	155.23	179.16	176.1	127.14
Avg Wkly Rent 2026-27	95.91	116.73	134.09	151.36	162.82	197.11	184.55	133.43
increase per week @ 4.8%	5.00%	5.01%	4.95%	4.87%	4.89%	10.02%	4.80%	4.95%
<b><u>Affordable Rents</u></b>								
Size	Bedsit	Bedroom 1	Bedroom 2	Bedroom 3	Bedroom 4	Bedroom 5	Bedroom	Total
Avg Wkly Rent 2025-26		162.71	199.69	235.94	266.84	259.08	254.6	200
Avg Wkly Rent 2026-27		171.6	210.21	248.57	279.91	271.51	266.82	210.66
increase per week @ 4.8%		5.46%	5.27%	5.35%	4.90%	4.80%	4.80%	5.33%

- 11.7 The average HRA social rent for new tenants from April 2026 will reflect the fact that most existing tenants have diverged from formula rent, as a result of rent caps in 2023-24. Indicative average weekly rents for new social tenants are shown below in table 2. It is proposed that the rents for new affordable

rent tenants will be let provisionally at 80% of market rent if the property meets the required minimum energy efficiency requirements.

**Table 2 – Average formula rents for new tenants**

<b>Formula Rents</b>								
Size	Bedsit	Bedroom 1	Bedroom 2	Bedroom 3	Bedroom 4	Bedroom 5	Bedroom 6	Total
Avg Wkly Rent 2025-26	98.23	116.24	133.94	151.53	165.11	187.32	182.65	133.39
Avg Wkly Rent 2026-27	102.94	121.82	140.35	158.79	173.04	201.39	191.41	139.756748
increase per week @ 4.8%	4.79%	4.80%	4.79%	4.79%	4.80%	7.51%	4.80%	4.77%

### **Service charges**

- 11.8 In the 2024 business plan, the council agreed to revert to full cost recovery on existing service charges from 2024-25, where this is possible.
- 11.9 The cost recovery exercise indicated a number of charges that would increase significantly, where this is the case there is the potential to phase or cap the increase to ensure increases are acceptable. In 2024/25, the principle of 5% or £5 pw, whichever is the greater, was applied.

### **Shared ownership rents**

- 11.10 The HRA business plan assumes that a proportion of future new homes development will be delivered as shared ownership. The Government have prescribed that any new shared ownership development that is either s106 or Homes England grant funded should have leases that base annual rent reviews on CPI+1% with a floor of 0% if the CPI is minus 1% or lower. It was agreed in 2024/25 that this methodology will be applied to all shared ownership properties.

### **Repairs and Maintenance**

- 11.11 Annually the council looks at the capital costs of maintaining the existing housing stock at decent homes standard and its investment here is based upon data held by the Council on replacement cycles for key components of the housing stock.
- 11.12 The data currently held by the Council to support the capital investment strategy is out of date and to remedy this, a full stock condition survey is currently underway, with expected completion within 18 months. However, the results of the survey will not be ready to inform the major repairs programme for 2026/27, and therefore estimates have been based on existing data, and reviewed to ensure suggested works are necessary and deliverable.
- 11.13 The Council is reprocurring its repairs and maintenance contract. Under the existing contract, and the multiple hybrid rates within the contract, it is difficult to accurately forecast the true cost of the repairs service. With the proposed approach to move to the National Housing Federation Schedule of Rates

Version 8, more accurate cost modelling will enable more informed budgets and asset strategies for future years.

- 11.14 Concurrently, the increasingly stringent regulatory environment means that the HRA needs to be in a position to respond appropriately whilst maintaining control of the budget. HHSRS, Consumer standards and the Regulator for Social Housing are driving in further requirements such as Awaabs Law that need to be provided for.
- 11.15 To bring the housing stock up to the required energy efficiency standard of EPC C identified by 2030-31, the business plan allows for £41.9m on capital works.

### **New Build and Acquisition of new stock**

- 11.16 In delivering an ambitious programme of 1,000 new homes, the HRA business plan is now operating with much higher average build costs than in previous years, and no longer has the advantage of borrowing at historically low interest rates under self-financing from the government.
- 11.17 As a result of ongoing high costs of construction, the Council has followed a strategy of acquisition since 2024/25, and as a result been able to add to its housing supply through targeted acquisitions.
- 11.18 As at the beginning of 2025/26 a total of 314 properties had been completed out of the 1000 homes target for 2031/32. Acquisitions of properties at Kings Barton and Hazeley Road will add a further 156 affordable rented and shared ownership properties to the council stock. A further 4 acquisitions funded by the Local Authority Housing Fund (LAHF) and 3 previously agreed RTB buy backs are anticipated in 2025/26. A new build scheme of 5 rented properties at Woodman Close was agreed by Cabinet in October 2025.
- 11.19 The remaining 518 properties are currently included in the business plan as either identified but unapproved schemes, or as an overall assumption in the business plan. No further new build or acquisition is currently assumed beyond 2031/32 in the business plan at this point in time.
- 11.20 Currently within the business plan, based on existing new build, and assuming the level of saving outlined in this report can be achieved, there is sufficient balance within the Major Repairs reserve to allocate to new build, reducing the level of initial debt build up and allowing sufficient capacity within the HRA business plan to allow for future debt repayment.
- 11.21 The primary financial assessment in the evaluation of new homes is a Net Present Value (NPV) calculation of all future income and expenditure over 50 years, in line with long term borrowing costs and more in line with the expected life of a property, discounted to current prices. This calculation uses the cost of capital as the discount factor, in line with business plan and reviewed against prevailing market rates. The council's standard model includes the residual social value of the housing at year 50 on the basis that

the asset has been well maintained and has a future use and value. There are other criteria such as gross income covering the interest cost of borrowing, but the NPV calculation is key to enable comparison of options within a specific proposal, or to compare different proposals. The key criteria is ensuring that proposed schemes are affordable to the HRA.

- 11.22 Appraisals of new build will prioritise social rent in line with the development strategy, however where this is not affordable to the HRA consideration will be given to affordable rent at LHA rates, provided the LHA rates do not exceed the statutory maximum of 80% market rent.

### **Right to Buy Legislative changes**

- 11.23 Following the election of the Labour government a number of changes were made to the Right to Buy scheme, and some restrictions on the use of Right to Buy receipts were temporarily lifted. During 2025, the government consulted on wider proposals for the Right to Buy scheme.

- 11.24 Following consultation, the government introduced the following measures:

- Maximum permitted contribution of Right to Buy receipts of 100%, introduced in 2024, to become permanent
- RTB receipts can continue to be combined with s106 contributions permanently
- RTB receipts may be combined with grants from April 2026
- No future cap on percentage of housing replacements as acquisitions
- The abolition of treasury share, local authority share and buy back allowances, which will now be incorporated into one-for-one receipts and ring fenced to new housing
- Expenditure deadline increased from five to ten years with effect from 2027/28
- Enabling Local Authorities to grant RTB receipts to ALMOs
- 35 year exemption for new homes from RTB
- Eligibility period for RTB extended from 3 to 10 years
- Extends the local authority right of first refusal indefinitely

- 11.25 The HRA business plan reflects the changes made to the scheme. The number of sales assumed in the model assumes at least 20 sales in 2025/26 (following the high number of applications prior to the reduction in RTB discounts in November 2024), followed by an average of 6 sales per year from 2026/27. This is supported by the number of applications since April

2025 but will continue to be reviewed as more experience of the new regime is gained.

- 11.26 The impact on the HRA business plan is to reduce the expected capital receipt. However, this loss is outweighed by the retention of rental income streams in the longer term as the HRA retains more properties, and therefore increases the capacity of the HRA to borrow to invest in new properties.

### **Cost of Borrowing**

- 11.27 Interest rates are a key cost driver in the HRA business plan and as at 31 March 2025 the HRA had a Capital Financing requirement of £212.6m, of which £154.5m is external debt (fixed at PWLB interest rates averaging 3.2%) and the balance of £58.1m is internally borrowed (offset against reserve balances and working capital). The current cost of financing external debt is £5.2m per annum, and internal borrowing estimated at £2.8m in 2025/26.
- 11.28 The Council borrows from the Public Works Loan Board (PWLB). PWLB rates are not directly linked to the Bank of England base rate but are set at a margin over government gilt yields. The cost of borrowing will not therefore reflect base interest rates, but will be influenced by market factors that impact on gilt rates.
- 11.29 This debt largely came about through self-financing and was originally taken out in 2012. A proportion of this existing external debt (£85m) will need to be refinanced between now and 2042, with a need to refinance £35m within the next five years. The HRA, unlike the General Fund, has no requirement to set aside funding for debt repayment, albeit that the depreciation charge is set aside to finance capital expenditure.
- 11.30 The business plan includes £200m provision for building or acquiring affordable homes between now and 2031, funded through a mixture of Right to Buy (RTB) 1-4-1 capital receipts; shared ownership sales; other discretionary asset disposals; grants and affordable housing s106 contributions; and borrowing. In addition, there is also significant investment in retrofitting existing stock. This will require additional prudential borrowing of £138m between now and 2031 to finance this delivery.
- 11.31 The business plan assumes all underlying debt is refinanced in the short term, but that new debt arising from the 1000 homes programme and retrofit is repaid within the 30 year business plan to reduce debt burden in the long term, and in the current iteration, £138m debt raised between 2025 and 2031 would be repaid by the end of the period.
- 11.32 At present the cost of long-term government borrowing continues to increase and stands at circa 5.8% for 50 year borrowing at the time of writing. In the decade before 2006/07 the PWLB long term interest rate peaked at 9.42% but averaged 5%.

- 11.33 The HRA currently benefits from a preferential rate for HRA borrowing, which is due to expire on 30 June 2026. For prudence, it is assumed that this rate will not be renewed. Given the continued increases and uncertainty surrounding the cost of borrowing, the assumed cost of borrowing for new and refinanced debt in the business plan has been increased from 5% to 6%.

### **Interest calculation for Internal Borrowing**

- 11.34 The Council has two pools for borrowing, for the HRA and General Fund respectively. External borrowing is apportioned directly to the relevant pool. Any difference between the HRA's loan pool and the underlying need to borrow, will result in a notional cash balance, which could be in surplus or deficit. Up until 2024/25, the rates applied were the PWLB 3 month variable loan rate for deficit balances (i.e. internal borrowing), and the risk free Debt Management Office rate applied to surplus balances.
- 11.35 The rates applied have not been reviewed for some time, and indeed the risk free rate from the DMO is no longer available to Council staff. Furthermore, the rate at which the HRA borrows from the General Fund is typically higher than the rate at which the General Fund borrows from the HRA as a consequence of the rates used.
- 11.36 The applicable rates have therefore been reviewed and the proposal is to equalise the interest rate at the PWLB 3 month variable loan rate for both borrowing and lending. This will mean that the cost of internal borrowing is the same, whether the General Fund is internally borrowing from the HRA or vice versa. Depending on the rates at the time, this may generate a slight increase in expected interest return on balances for the HRA with a corresponding adverse impact on GF, but is considered more equitable between the funds

### **Digitisation and Customer Journey**

- 11.37 There is a need to modernise the provision of services to customers through the introduction of better digital access. Over the last 2 years a total of £1.6m has been made available in the business plan to resource the repairs procurement contract, and to ensure resources are available to facilitate investment in systems to enable this objective to be achieved.
- 11.38 Following feasibility works, the proposal is to invest in the existing MRI software to move to a cloud hosted solution, and to implement additional modules for Customer Central, which is a purpose built Customer Relations Management system to better manage customer data, and Safer Communities for more effective management and reporting of Anti-Social Behaviour and Domestic Abuse. The anticipated ongoing additional cost is £0.12m, which has been added to the business plan.
- 11.39 In addition to the system investment, there will be a requirement for internal resource to assist with data migration, training, project management and other

related costs. As at the time of writing, likely costs for 2026/27 were still being sought, however the estimate for preparatory costs in 2025/26 is £0.02m. This can be funded from the remaining balance of the £1.6m investment, which currently stands at £0.7m. Clearer estimates for project management in 2026/27 are currently being developed and will be covered in the February budget report.

- 11.40 In addition, work on the re-procurement of the repairs and maintenance contract is ongoing as the current contract expires in 2026 and is subject to a separate report (CAB3473). The business plan allows for associated costs of £0.3m estimated commitment in 2025/26.

### **Service Pressures**

- 11.41 The key pressures facing the HRA specifically arise from the continuing need to ensure compliance within a tighter regulatory environment, and the impact of ever-increasing borrowing costs which arise from the planned investment in both new and existing stock.
- 11.42 Repairs and maintenance - the increasingly stringent regulatory environment means that the HRA needs to be in a position to respond appropriately whilst maintaining control of the budget. In addition, 2025/26 has seen an increase in void turnover and the associated cost of refurbishment. An additional £1.1m has been added to the business plan to reflect this pressure. HHSRS, Consumer standards and the Regulator for Social Housing are driving in further requirements such as Awaabs Law that needs to be provided for.
- 11.43 Stock condition survey – the 2025/26 HRA budget allowed £0.25m to undertake a stock condition survey across the whole stock. As part of this survey, an opportunity to obtain up to date floor plans of tenanted properties has been identified. There would be operational benefits of undertaking this work. However, the additional works come at a significant one-off cost of £0.26m. The budget will need to be implemented in 2025/26 to align to the stock condition work.
- 11.44 Issues with the quality of retrofit work to void properties undertaken in 2023/4 have been identified. Engagement with the contractor responsible has taken place and a sample of 30 properties has been selected to determine the extent of retrospective work required. At this stage it is prudent to make provision for the gross cost of works of £ 0.5m in 2025/6 and £ 0.5m in 2026/7 until the extent and nature of works is confirmed, as well as the proportion of the cost that may fall back to the Council.
- 11.45 The staffing structure within Housing was revisited during 2025/26, to ensure it remains fit for purpose, meet regulatory requirements and makes best use of resources, and resulted in an increase to the establishment budget of £0.1m.



- 11.46 Careline digitisation costs – the initial estimates for implementing digitisation of careline were set several years ago and excluded links between the careline system and fire alarms. The capital budget set aside will need to be increased in line with current estimate and including fire safety.
- 11.47 The key pressure identified this year, however, relates to borrowing costs. The business plan agreed in February assumed a rate of 5% for all new borrowing based on the prevalent market rates and treasury advice at the time. However, experience of PWLB rates since April 2025 are that the base PWLB rate for 50 year borrowing actually increased to 5.5% in the first quarter of 2025 and continued to increase closer to 6% in the summer of 2025. Although the Council benefits from the certainty rate and a reduction on HRA borrowing, the existing HRA reduction expires at the end of 2025/26, and it was therefore considered prudent to apply a 6% assumption for new borrowing and refinancing of existing borrowing. Borrowing rates are continuously monitored and reviewed, including forecast future rates. The business plan is sensitive to these rates and increases have the potential to materially impact the plan and the council's ability to meet its objectives within the HRA.
- 11.48 This has a big impact on the HRA. Existing debt is profiled to mature between 2025 and 2030, and a further £138m of borrowing is assumed in the model to fund the remainder of the 1000 homes programme and retrofit programmes in particular. The impact of this is not therefore immediate but incrementally increases interest costs over the next 5-6 years, until additional borrowing stops and repayments of debt start, and a decrease in the working balance in this period is now evident.
- 11.49 The depreciation charge is notoriously difficult to estimate accurately, as the actual charge for the year is calculated based on both component cost of assets and valuation of properties. As the valuation for 2026/27 depreciation charge will not be undertaken until 31st March 2025, it is not possible to provide a perfectly accurate figure. The depreciation charge for 2025/26 and subsequent years has been reviewed based on 2024/25 outturn. Whilst depreciation is a notional figure, the council is required to transfer a sum equal to depreciation to the major repairs reserve which is restricted to capital expenditure only and thus can cause pressure on revenue reserves.
- 11.50 The Council is currently undertaking a full stock condition survey. The outputs of the full survey will not be available for this round of business planning but is likely to impact on the planned maintenance programme and the component cost assumptions that inform the depreciation charge.
- 11.51 If no action were undertaken to address these pressures, there would be insufficient resources within the business plan, resulting in a working deficit (which is not allowable under the provisions of the housing act).
- 11.52 The estimated level of saving required to maintain existing spending plans, and to reverse a forecast continuing decrease in working balance, is £1.2m.

### **HRA savings proposals**

- 11.53 The 2025/26 budget agreed savings of £1.67m to be achieved in 2025/26, and a further £0.25m in 2026/27, of which £0.4m was one off. This target has largely been met, with actions in place to monitor the achievement of these savings.
- 11.54 However, despite the savings agreed and built into the budget, the 2025/26 budget was set at a deficit of £2m met from the working balance. Introducing the pressures outlined above would, without any action, reduce the working balance to zero within 5 years.
- 11.55 As the business plan progresses beyond 5 years, the HRA benefits from ongoing above inflation increases in rent, and rental yield increases as new homes are built and handed over, and in the longer-term debt interest reduces as capital balances are paid off. However, in the short term, action needs to be taken to ensure the working balance remains sufficient in the short to medium term. To this end, income generation and savings ideas equivalent to approximately £1m per annum are required.
- 11.56 The table at appendix 2 provides the detailed list of proposed savings, of which £0.89m quantified ongoing revenue savings and £0.25m capital savings have been identified.
- 11.57 Some identified savings reduce budgets that are currently being underspent, or not spent at all, and where this is the case, have been built into the business plan model. Further proposed savings are yet to be built in pending consultation and further work to determine a realistic timescale or value.
- 11.58 Savings proposals have a high degree of confidence on both the amount and the implementation have been rated green and included in the business plan. Those proposals where uncertainty over the value or implementation timescale are rated as amber or red and not yet included in the business plan.
- 11.59 One of the proposals is to bring Westgate Place back into use. Westgate Place was previously leased by the HRA to A2 Dominion at a peppercorn rent, however the lease has now expired, and the property has been returned to the HRA. The property requires void works estimated at £10,000 and fire safety works estimated at £14,000 to bring back into use as Temporary Accommodation and would generate rental income to the HRA, which will require an increase in voids spend in 2025/26. These costs can be covered by the existing voids and fire safety budgets. By bringing the property back into use, there will also be a wider benefit to mitigate increasing demand for Temporary Accommodation.
- 11.60 By bringing the property back into use, costs associated with maintaining an empty property will be avoided, the HRA will benefit from a rental income stream not previously budgeted, and the increase in availability of temporary accommodation will help mitigate increasing demand.

11.61 The scale of savings to be made inevitably means that there is a degree of associated risk. Savings proposals have been risk rated accordingly. Potential mitigations, if savings cannot be achieved, are:

- Reducing the proposed investment budget (with potential consequences for service improvement)
- Reducing working balance (which is already the case in the first 5 years as borrowing costs increase)
- Reducing the capital programme or delaying the new homes programme
- Reducing core services provided

### **Asset Disposals**

11.62 The business plan agreed in February 2025 includes an assumption of asset disposals totalling £2.5m, equating to £0.5m per annum for 5 years.

11.63 During 2025/26, disposals of surplus assets are progressing, and the targeted £0.5m receipts for 2025/26 is expected to be achieved. The business plan assumes that the HRA will identify and dispose of further surplus social housing assets to meet the target disposal proceeds. These assets will be identified by looking at their long-term fit in terms of demand/cost to maintain and suitability/cost to retro fit to required standards, and work is ongoing via a project group to monitor disposals and identify suitable assets.

11.64 The capital receipts generated by asset sales will be reinvested back into the HRA capital programme. If sales receipts are not achieved, the borrowing requirement for the capital programme will increase.

### **Sewage Treatment Works**

11.65 The HRA is responsible for the operation of a number of small sewage treatment works, septic tanks, and cesspools, which provide private sewage treatment connections for 382 council tenants and 368 private homes. The Sewage Treatment Works encompass 36 small sewage treatment works (including septic tanks), 19 pumping stations (9 are isolated and 10 within curtilage of treatment works) and 21 cesspools. The sewage treatment works range in size from small works serving 4 properties to larger works serving 85 properties. The septic tanks and cesspools serve between 1 and 8 properties.

11.66 There is currently an under-recovery by the HRA of the annual cost of operating these treatment plants.

11.67 The council should be seeking to fully-recover the total cost of providing sewage treatment services so that these services are not subsidised by wider

council tenants. Investment is included in the capital programme to invest in high-cost sites to reduce running costs where possible.

- 11.68 The proposal for 2026/27 is to continue to increase sewerage charges at 10% per annum until cost recovery for individual sites is achieved. and broadly in line with proposed water charge increases to be confirmed by OFWAT. Cost recovery will therefore take much longer to achieve.

## 12 OTHER OPTIONS CONSIDERED AND REJECTED

- 12.1 The council could consider investing less in customers' homes than is required to achieve the regulatory requirement of EPC C by 2030. This is not recommended as it would breach the regulatory requirements and in addition would not support the council's policy objective of being greener faster.
- 12.2 The council could reduce investment in major repairs of existing properties. However, doing so would risk failing to meet decent homes standards, and risks underinvestment in the stock, increasing pressure on reactive repairs and voids within the revenue budget.
- 12.3 The council could delay the implementation of 1000 homes programme to spread the investment cost over a longer period, reducing pressure on the business plan in the short term. However, there is a commitment to deliver by 2031 and therefore this has been discounted.
- 12.4 The council could also seek increased revenue savings than those identified in this report to provide investment capacity in the HRA. At this time the level of revenue savings identified are achievable and will not lead to a reduction in the quality of service delivered. Investment in improving the digital access to services may generate efficiencies in the future that can be realised without detriment to services. Therefore, increased revenue savings are not recommended at this time.

## BACKGROUND DOCUMENTS:-

### Previous Committee Reports:-

CAB3477 (EXEMPT) Acquisition of affordable homes Hazely Rd Twyford

CAB3485 Acquisition of affordable homes at Kings Barton Winchester

CAB35xx Woodman Close new build

CAB3473 Procurement of Repairs & Maintenance term contract

CAB35xx HRA Outturn 2024/25

CAB35xx HRA Budget 2025/26

CAB34xx HRA Business Plan and Budget Options – November 2024

Other Background Documents:-

None

APPENDICES:

Appendix 1 Summary Business Plan

Appendix 2 Savings Proposals

Appendix 3 Business Plan Metrics

## Appendix 1

### Summary Business Plan

	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31
	HRA Business Plan £	HRA Business Plan £	HRA Business Plan £	HRA Business Plan £	HRA Business Plan £	HRA Business Plan £
<b>Income</b>						
Dwelling Rents	35,463,317	37,850,523	41,137,142	44,010,852	46,814,025	51,200,434
Voids	-548,935	-580,874	-624,188	-662,540	-699,816	-759,325
Net Dwelling Rents	34,914,381	37,269,649	40,512,953	43,348,312	46,114,208	50,441,109
Non Dwelling Rents	203,784	212,750	219,133	225,707	232,478	239,453
Charges, contributions and other income	2,729,723	2,892,357	3,010,627	3,127,948	3,220,416	3,346,091
<b>Total Income</b>	<b>37,847,888</b>	<b>40,374,756</b>	<b>43,742,714</b>	<b>46,701,967</b>	<b>49,567,102</b>	<b>54,026,652</b>
<b>Expenditure</b>						
Repairs and maintenance	-8,081,238	-8,920,870	-8,867,467	-9,147,840	-9,313,485	-9,614,994
Supervision and management	-10,798,677	-11,170,698	-11,440,170	-11,782,259	-12,134,589	-12,497,465
Special services	-2,136,075	-2,221,254	-2,282,259	-2,342,568	-2,404,523	-2,468,171
Rents, rates, taxes and other charges	-1,995,197	-1,800,523	-1,199,226	-896,926	-911,259	-925,825
(Increase)/decrease in provision for bad or doubtful debts	-109,586	-118,240	-135,328	-149,424	-164,454	-187,868
Depreciation and impairment of fixed assets	-10,592,426	-11,115,963	-11,575,274	-12,063,098	-12,599,308	-13,201,312
<b>Total revenue spend</b>	<b>-33,713,199</b>	<b>-35,347,548</b>	<b>-35,499,724</b>	<b>-36,382,115</b>	<b>-37,527,618</b>	<b>-38,895,634</b>
<b>Net cost of services</b>	<b>4,134,689</b>	<b>5,027,208</b>	<b>8,242,990</b>	<b>10,319,852</b>	<b>12,039,484</b>	<b>15,131,018</b>
Interest payable, incl amortisation of premiums and discounts	-7,982,930	-9,517,044	-10,656,361	-11,441,420	-13,075,278	-15,122,401
HRA investment income	889,658	672,127	258,928	209,901	181,665	170,878
<b>Surplus / (deficit) for the year</b>	<b>-2,958,583</b>	<b>-3,817,709</b>	<b>-2,154,443</b>	<b>-911,667</b>	<b>-854,129</b>	<b>179,495</b>
HRA Balance Brought forward	15,950,000	12,991,417	9,173,708	7,019,265	6,107,598	5,253,469
<b>HRA Balance Carried forward</b>	<b>12,991,417</b>	<b>9,173,708</b>	<b>7,019,265</b>	<b>6,107,598</b>	<b>5,253,469</b>	<b>5,432,964</b>

## Appendix 2 – Savings Proposals

Savings proposals have been rag rated according to the confidence regarding deliverability of the proposal. Where proposals are amber, there may be some risk to achieving the saving, and red proposals will need further work or scoping.

	Revenue Savings	Capital Savings	RAG rating
1) Additional income from applying rent convergence - CPI+1% + £2 for non convergent properties	400,000		Amber
2) Inclusion of income for Lower Brook St car park (assumed from 2027/28)	10,000		Green
3) Sheltered Housing - reduce hospitality and advertising budgets	20,000		Green
4) Tenant Welfare / Hoarding budgets reduce to current spend levels	60,000		Green
5) Sewerage charges increase 10%	25,000		Green
6) Delete Neighbourhoods discretionary budgets	52,000		Green
7) Reduce budgets associated with identified underspends on utility budgets	100,000		Green
8) Reduce tenant engagement budget to match current spend levels	20,000		Green
9) Estates Improvement budget reduction to £100k per annum		250,000	Green
10) Current gap on service charge recovery	100,000		Amber
11) Reduce frequency of cyclical external redecs from 5 years to 7 years	50,000		Amber
12) Bring Westgate Place back into use	40,000		Amber
13) Section 20 review process	15,000		Amber
14) Investment in sewerage treatment plants	TBC		Red
15) Careline service charge for equipment	TBC		Red
16) Identify any further areas that could be service charged	TBC		Red

### Appendix 3 – Business Plan metrics

Financial Year	External Debt	CFR	Revenue Expenditure	Capital Charges	Debt Repayment	Net Income	Capital Programme	New Build	Working Balance
2025.26	154,491	212,600	33,604	7,983	-	37,738	17,338	22,247	12,991
2026.27	196,037	231,376	35,229	9,517	-	40,257	26,934	31,125	9,174
2027.28	221,987	244,557	35,364	10,656	-	43,607	17,906	19,999	7,019
2028.29	236,356	258,927	36,233	11,441	-	46,553	17,614	20,624	6,108
2029.30	276,316	298,887	37,363	13,075	-	49,403	17,581	39,999	5,253
2030.31	304,317	326,887	38,708	15,122	-	53,839	18,012	28,026	5,433
2031.32	324,436	347,007	40,200	16,846	-	56,656	7,270	36,098	5,213
2032.33	322,387	344,958	41,809	17,797	2,049	60,815	9,069	-	4,811
2033.34	319,651	342,221	43,414	17,658	2,737	63,542	8,575	-	5,441
2034.35	316,143	338,714	44,599	17,481	3,507	64,852	9,865	-	5,914
2035.36	311,120	333,691	45,820	17,613	5,023	67,407	9,311	-	6,343
2036.37	306,724	329,294	47,077	17,338	4,397	67,500	13,265	-	6,735
2037.38	301,999	324,570	48,371	17,316	4,725	68,850	12,900	-	7,053
2038.39	296,774	319,344	49,705	17,017	5,226	70,226	13,618	-	7,395
2039.40	290,944	313,514	51,078	16,686	5,830	71,630	9,941	-	7,737
2040.41	284,653	307,224	52,493	16,322	6,291	73,063	17,106	-	8,200
2041.42	276,188	298,759	53,950	15,883	8,465	75,905	10,513	-	8,515
2042.43	268,705	291,276	55,451	15,651	7,483	76,016	11,737	-	8,955
2043.44	260,616	283,187	56,998	15,184	8,089	77,537	18,552	-	9,417
2044.45	251,715	274,286	58,592	14,674	8,901	79,089	14,277	-	9,694
2045.46	242,218	264,789	60,234	14,122	9,497	80,673	13,738	-	10,115
2046.47	231,958	254,529	61,926	13,533	10,260	82,289	12,282	-	10,581
2047.48	219,591	242,162	63,670	13,099	12,367	85,490	13,145	-	11,152
2048.49	207,814	230,385	65,467	12,374	11,777	85,621	16,992	-	11,631
2049.50	195,102	217,672	67,319	11,640	12,712	87,338	12,347	-	12,060
2050.51	188,877	211,447	69,228	11,071	6,225	89,090	19,106	-	19,769
2051.52	188,877	211,447	71,196	10,889	-	90,878	16,425	-	34,262
2052.53	188,877	211,447	73,224	11,133	-	94,413	18,605	-	50,738
2053.54	188,877	211,447	75,315	11,133	-	94,565	19,163	-	65,978
2054.55	188,877	211,447	77,470	11,133	-	96,459	19,738	-	81,643