Executive Report

Milton Keynes City Council

Annex N to Cabinet Decision – 3 December 2024

DRAFT COUNCIL HOUSING REVENUE ACCOUNT (HRA) BUDGET 2025/26 AND 30-YEAR BUSINESS PLAN REFRESH

Executive Summary

This report sets out the draft Housing Revenue Account (HRA) budget for 2025/26, for revenue and capital, together with the refresh of the 30 Year HRA Business Plan. The public consultation on these draft documents will commence on 3 December 2024, alongside the wider Council budget.

The financial position of the HRA has declined rapidly in recent years, for several reasons including the recent economic challenges where we have seen record and sustained levels of inflation, higher borrowing rates, previous government policy decisions on rent setting (caps and reductions) and additional regulatory requirements. As a new town and now a city, we grew quickly and that gives us further challenges with our stock, with similar ageing profiles and a substantial proportion of our stock being built from non-traditional construction materials, so we face several significant asset related challenges at the same time. To ensure we have the best data and information on our stock to inform the business plan, we are accelerating our condition survey programme to review all our stock over the next three years. This will provide greater certainty in the plan, which is critical given ongoing uncertainty and volatility of the wider economic position.

The draft HRA budget shows a balanced budget across the MTFP, and we are within the borrowing limit set as part of our Treasury Management Strategy.

Whilst recent government announcements were welcomed by the sector, there remains long term uncertainty around rent policy and legislative changes, together with ongoing volatility in the wider economic climate and therefore future investment decisions are very challenging, given these are significant, long-term investments and we need to ensure the long-term viability of the HRA. As a result, the quarterly refresh of the business plan undertaken in 2023/24 and 2024/25 will continue as business as usual.

The context for the 2025/26 budget remains very challenging and one of continuing uncertainty both nationally and globally. In particular:

- Inflation has remained higher than anticipated during 2024 and rose again in October 2024. An increase was anticipated before it is expected to reduce again in line with government targets, but this is higher than expected.
- There are substantial changes proposed to the regulatory framework for providers of social housing, with no additional funding for new burdens. Several changes are subject to consultation, which makes long term planning challenging. This includes long term rent policy, Decent Homes Standard 2, decarbonisation, the implementation of Consumer Standards and Right to Buy reforms. The aim of these

changes is to strengthen the accountability of social landlords for providing safe homes and quality services and treating residents with respect.

The details in this report have been prepared in accordance with the framework set out in the Medium-Term Financial Outlook approved by Cabinet in September 2024 and the budget was developed in line with the political direction of the Executive and in accordance with the following headline objectives:

- To balance the HRA budget in the coming financial year and over the business plan period, ensuring long term viability of the HRA against a challenging economic and regulatory backdrop.
- To continue to deliver the priorities as set out in the adopted Council Plan.
- To ensure we comply with our regulatory responsibilities, which includes prioritising our compliance and health and safety responsibilities.

1. Housing Economic Context

1.1 The Housing Revenue Account (HRA) is a ring-fenced account, which includes income and expenditure relating to the provision of housing to tenants and leaseholders. It is funded by rents and service charges, rather than from Council Tax.

1.2 Government rent policy has resulted in significant reductions in resources over recent years. The mandated rent cap of 7% in 2023/24 (which was 4.1% less than inflation), had the cumulative impact of removing £3.6m of annual income in perpetuity, equivalent to £72m borrowing (one year), with an estimated loss over the business plan period in terms of income of £108m. This is in addition to the impact of the four-year rent reductions between 2016 and 2020, which reduced resources in the business plan by £339m.

1.3 The previous government had already announced the rent policy for 2025/26 of an increase of CPI +1%. In the Autumn Budget it was confirmed that this would be extended by a further five years and this has now been accounted for in the budget, resulting in an improved long-term position, compared to our estimated position in September 2024. A wider consultation on rent policy is now live, with responses due back to government on 23 December 2024. The longer-term certainty is welcome, but costs are increasing at a higher rate (inflation, national insurance burdens), so a broader rent reform is needed, given the significant loss of resources through previous rent policy decisions.

1.4 Like the General Fund, the HRA has been significantly impacted by the sustained high levels of inflation, which remain elevated in the construction sector. This has resulted in additional costs relating to pay awards, utilities and through our contracts, due to material, fuel, and labour cost increases, both in the current financial year, as well as across the MTFP.

1.5 We have made an allowance for the additional cost of employer's national insurance for our own workforce - although it is expected that Council's will be compensated for this cost, the HRA is not subject to new burdens in the same way as the General Fund. There is no allowance for an uplift in contracts due to the impact of the increase in employer’s national insurance contributions. All our main repairs and maintenance contracts are in a period of retendering, so there is general uncertainty on pricing, as well as the impact of NIC.

1.6 The position across the MTFP remains challenging and we have had to make difficult decisions to ensure the long-term viability and robustness of the HRA, including reviewing the efficiency of our services but also how we prioritise investment. We are therefore currently only considering new build schemes where they deliver value for money and enable the Council to maximise the use of retained RTB capital receipts. Increases in the cost of materials, coupled with labour shortages and higher borrowing costs currently make house-building unviable which has resulted in a national slowdown of the housebuilding market.

1.7 There are significant funding pressures nationally on council housing finances and without financial reform, most council landlords will struggle to maintain their existing homes adequately or meet huge new demands to improve them, let alone build new homes for social rent. Some councils, rather than increasing supply, will have no option but to sell more of their existing stock (on top of Right to Buy sales), to finance investment in an ever-shrinking portfolio of council homes. Whilst our business plan currently shows we will move into a position of headroom in the MTFP period, we need to be sure of our investment requirements on existing stock before we consider any new, wider investments.

1.8 Officers are currently involved in a HRA MHCLG Technical Forum group which is working on how we ensure long term viability of HRAs by, understanding pressures within, and suggesting what is most needed from Government to support viability, and how we can meet new council housing supply and wider policy objectives.

2. Medium Term Financial Outlook

2.1 The HRA Medium Term Financial Plan (MTFP) was refreshed in September 2024, but at this time several assumptions were made around inflation, rent policy, and planned maintenance requirements. The draft budget, presented in this report, has been updated to reflect the confirmed position on rents, actual changes in Right to Buy receipt policy, latest updates on core assumptions and other key changes such as stock investment profiles and project cashflows. The refresh of these core assumptions and the financial impact they have on the MTFP is shown in Table 1.

Table 1: HRA MTFP – December 2024 Draft Position

HRA MTFP	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
Dwelling Rents	(64.377)	(66.489)	(69.388)	(72.775)	(75.101)
Other Income	(7.098)	(8.220)	(7.467)	(7.507)	(7.578)
Total Income	**(71.475)**	**(74.709)**	**(76.855)**	**(80.281)**	**(82.679)**
Repairs and Maintenance	16.346	18.079	18.343	18.621	18.698
General Management Services	21.349	22.939	22.179	22.289	22.674
Interest and Repayment of Borrowing	12.299	14.761	17.432	18.926	19.580
Bad Debt Provision	0.649	0.445	0.489	0.584	0.603
Funding for Capital Repairs (depreciation charge)	16.957	15.261	15.628	16.018	16.419
Revenue Contribution to Capital	3.875	3.223	2.785	3.844	4.706
Total Expenditure	**71.475**	**74.709**	**76.855**	**80.281**	**82.679**
Net Budget	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**

Core Planning Assumptions

2.2 Corporate planning assumptions have been reviewed based on the available data at this time. As detailed in the 10 September 2024 MTFO report to Cabinet, we had seen inflation returning to its 2% target, however this increased in October (higher than expected). Inflation has a material impact on the HRA (this drives all of our income and many of our costs) so this will need to be carefully monitored.

Table 2: Core Planning Assumptions

Business Plan Core Assumptions	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29+**
Price Inflation (CPI)	6.7%	1.7%	2.0%	2.0%	2.0%
Rent inflation (CPI+1%)	7.7%	2.7%	3.0%	3.0%	3.0%
Price Inflation (RPI)	7.4%	3.5%	2.4%	2.5%	2.5%
Interest Rate on Borrowing (weighted average)	3.9%	4.0%	4.1%	4.2%	4.1%
Interest Rate Risk £m	£ 0.167m	£ 0.554m	£ 0.898m	£ 1.192m	£ 0.604m
Interest Rate on Balances	4.0%	3.0%	2.5%	2.5%	2.5%
Right to Buy (RTB) Sales	35	9	9	9	9
Stock Rationalisation	21	20	20	20	20
Serpentine stock loss	98	45	46	0	0
Reema stock loss	46	0	31	31	26
New Stock	21	0	183	66	0
Prudent Minimum Balance (PMB)	£ 8.016m	£ 8.176m	£ 8.340m	£ 8.507m	£ 8.677m
Provision for Voids	2.00%	1.50%	1.00%	1.00%	1.0%
Provision for Bad Debt	1.01%	0.67%	0.71%	0.80%	0.80%
Voluntary Repayment of Debt (VRP)	£ 0.819m	£ 1.309m	£ 2.417m	£ 2.794m	£ 3.289m

Rent and Service Charges

2.3 Rent setting for social landlords is determined by Government policy under The Rent Standard. This allows for a maximum annual increase in rents of September CPI (1.7%) + 1%, therefore for 2025/26 the maximum increase is 2.7%.

2.4 As a result of the wider financial and economic position, we propose to increase rents by 2.7% for existing tenants in 2025/26 and for shared owners there will be an increase of 7.7% (the uplift lags one year behind tenant rents as per the terms of leases) and the draft budget has been set on this basis. This is an average increase of £2.85 per week for tenants and £7.35 per week for shared owners.

2.5 We have assumed CPI+1% (based on forecast inflation) for five years from 2026/27, in line with the government's announcement on rent policy. There is a live consultation on the possible extension of this, and should this be confirmed, this would have a positive impact on the business plan.

2.6 Our rents remain one of the lowest for social housing providers in the region and when we formally set rents in February 2025, the budget report will be accompanied by a rent Affordability and Context report which evidences this.

2.7 Service charge setting is not included within the scope of the Rent Standard, but landlords are able to recover some costs through service charges. We do not make a profit from these services but look to fully recover all relevant costs from tenants and leaseholders so we can continue providing quality services to our residents and ensure fairness across our tenant base. Since 2022/23, and through consultation with tenants and leaseholders, we have moved to full cost recovery of cleaning, caretaking and utility costs and any changes in these costs, for example because of inflation, will result in changes to charges to tenants and leaseholders.

2.8 We are acutely aware of the financial challenges facing our communities and tenants due to cost-of-living increases. Some tenants will not be impacted by these changes as they will see an increase in their housing benefit (HB/UC) to reflect rent increases and some service charges are also covered by HB/UC. However, we know this is not the case for all our tenants and continue to support those who are in financial crisis. The budget includes an increase to the Tenant Support Fund of £0.050m in addition to us signposting to wider resources.

2.9 Setting rents at a lower level than proposed, would require further savings and reductions in expenditure to balance the budget with a reasonable amount of headroom to manage risk. It is likely that this would result in reductions to the Planned Investment Programme, given limited scope for immediate savings elsewhere. Given the detrimental effect on our ability to invest because of previous rent caps and reductions, this would not be recommended as this would have greater long term adverse impacts, given a likely decline in stock decency, additional reactive repairs, and disrepair cases. A 1% reduction in the rent increase would reduce revenue resources by £0.6m (equivalent to £12m of capital borrowing).

Pressures, Savings and Technical Adjustments (Revenue)

2.10 A breakdown of the draft pressures, savings and technical adjustments are shown in Annex O.

2.11 The key pressures (excluding inflation and technical) for 2025/26 include:

- One-off Housing Maintenance Investment (£0.2m) – 24/25 pressure created to fund the costs associated with the procurement and change of delivery approach for repairs and maintenance contract. The costs include legal and procurement, systems development, and project management support. There is a risk that the recently announced NI changes will impact submissions as providers look to recover those increased NI costs. Bids are being evaluated during November and December so costs included within the business plan will be reviewed ahead of final budget.

- One off Costs of securing properties £0.4m – sites such as Serpentine Court, Reema blocks and Stowe Court need securing as they become vacant. Costs involve disconnection of utilities, stripping out of assets and boarding up to secure the properties.

- Assets Team £0.5m – additional resource to deal with workload pressures including the R&M tender and resource changes associated with the new contract.

- Disrepair claims £0.6m - cases are increasing which impacts on team resources to investigate and respond to claims, legal expenses, repair costs and compensation.

- Increased surveys, risk assessments and inspections £0.8m - across our housing stock these include fire doors, property condition, fire risk and asbestos. Increased funding is required to enable a rolling programme to be delivered and to ensure compliance. This includes the accelerated condition surveys which will then reduce to a normal rolling cycle later in the MTFP.

2.12 As our stock ages, and due to the scale of non-traditional construction methods used, there will be occasions where continuing to invest in maintenance and enhancements of homes is not possible or does not present value for money. As a result, a general allowance is made within the business plan for stock loss (rent roll less associated costs), and this can also occur more substantially with the removal of Reema blocks, for example the decommissioning of Serpentine Court.

2.13 The key savings in 2025/26 include:

- Consolidation of stand-alone IT systems (£0.1m) – the system captures stock condition information, into our single Housing Management system saving time and staff resources and resulting in better management information for making investment decisions.

- Insurance charges to leaseholders (£0.1m) – this reflects the increased costs because of inflation and risk increases within the industry. The increased cost is reflected in the Insurance Premium cost pressure line.

2.14 The key technical adjustments for 2025/26 include:

- The impact of rent increases and changes in stock profiles (£2.1m).
- The impact of changing assumptions on bad debt (£0.2m) as tenants transfer to Universal Credit, the progress of this will be reviewed ahead of final budget.
- The impact of depreciation charge to reflect a review of the economic lives of our assets (£1.7m).
- The impact of changing interest payable £2.5m and receivable £0.4m because of rate changes, changes in the levels of cash balances and to reflect additional borrowing to finance existing approved investment (e.g. Lakes Phase 2 and SHDF2) and refinancing existing maturing debt.
- Revenue contribution to capital (RCCO) reduction because of changes within the business plan has resulted in a lower RCCO for 2025/26 (£0.7m).
- The impact of inflation on contract expenditure, including insurance, utilities, pay inflation and reactive repairs £1.7m. The reactive repairs contract is currently out to tender.

The Capital Programme

2.15 The HRA capital programme (component replacement, decarbonisation improvement in existing stock, providing additional housing, and undertaking regeneration) is funded from available funding in the revenue budget, after we have funded our operating costs (which we contribute to a ring-fenced HRA capital reserve), through Right to Buy receipts, specific grants or through borrowing. The maximum amount that we can borrow is determined by the level of spare revenue money we have to pay for interest costs on borrowing (and a prudent allowance for repayment of debt).

2.16 The provisional capital programme is included at Annex P and across the four-year MTFP, it makes an allowance of £122m for Planned Maintenance and Investment and £71m for regeneration, acquisitions, and demolition. In addition, there is a budget for Wave 2 decarbonisation and energy improvement works of £27m.

2.17 The programme can be funded within the overall capacity in the HRA as identified through the headroom position (Table 3). This will be subject to ongoing review as part of the quarterly refresh of the business plan.

2.18 When noting the risks and uncertainty more broadly in this report, no additional investment can be agreed until the wider economic position becomes clearer and there is certainty that there is sufficient headroom to manage these risks. It will also be critical that projects are well managed, reducing the risk of overspends – if these arise, there will need to be a reduction in other schemes.

2.19 Resource and spend approval allocation is subject to normal governance processes, including developing business cases and approval by Programme Boards and the Corporate Portfolio Board.

2.20 We currently receive a share of the receipt when properties are sold under the Right to Buy scheme. Previously the receipts could be held for up to five years and fund up to 40% of the replacement home, through acquisition or new build. If receipts were not used, then they were to be returned to Government with interest, which is calculated at 4% above base rate on a day-to-day basis.

2.21 Recent Government announcements (July 2024) have confirmed that receipts received can be used to fund 100% of the replacement homes and that they are permitted to be used with section 106 contributions so long as the cost has been incurred by 31 March 2026. The cap on acquisitions (currently 50%) has been lifted for the same period and government have committed to a further review and consultation beyond this time limited flexibility.

2.22 In the Autumn budget, the treasury share of the receipt, which was usually paid to government each year will now be kept by us in full. Further announcements were made regarding reductions to the value of discount available to tenants from £0.102m to £0.038m, and as a result the government predict a significant reduction in the number of sales (we are expecting this to reduce from 35 per year down to nine per year) and this will take place from 21 November 2024. There is a consultation now live on further potential changes to the scheme.

2.23 Given the significant pressures repayment of receipts would put on the business plan, together with the impact of ongoing stock reductions on the HRA, we will need to prioritise expenditure that ensures we utilise receipts within their timeframe and therefore we will utilise receipts to the maximum and only borrow to fund any gap. The Cripps development scheme (66 units) is currently out to tender, however evaluation including value for money assessment will take place in December / January so any changes will be reflected in the final budget.

2.24 Dwellings that have been identified for disposal are void properties and have been deemed not viable (or possible) to invest in to bring up to a lettable standard and disposal both reduces costs to the HRA (council tax, ASB etc.) and allows us to reinstate our Acquisitions programme, which is proposed as part of this budget. The previous annual cap (20 per annum) on the number of acquisitions that can be made (when using right to buy receipts), has been lifted temporarily.

2.25 The capital budget for acquisitions and Cripps Lodge (excluding any buyback) over four years is set at £33m, financed by £19m of 141 receipts and £14m from general HRA resources. All rents for acquired properties will be set at affordable rent level and this is required to ensure that the new properties do not add additional pressure to the HRA business plan. Some of these acquisitions are targeted for tenants that are being decanted from Reema blocks.

2.26 In addition to the revenue costs in relation to the Reema blocks (section 2.11), there will be capital costs in relation to the remaining sixteen leaseholder buybacks and for demolition of the blocks. The remaining allowance of £3.3m is included within the business plan, based on estimated market value of properties. This is in addition to the £2.0m to fund the monitoring, essential repair work and statutory home loss payments and £2.8m for the demolition of these properties.

2.27 We currently have a budget within the planned maintenance programme for delivery of the Social Housing Decarbonisation Programme wave two, which is in part grant funded. Wave one is near completion however there is an overspend due to inflation and complexities with the scheme, this overspend will need to be met from wave two funding. Wave two has been assessed to proceed and a value for money assessment has been undertaken.

2.28 A budget outline across the main component spend has been set but prioritisation within these will be assessed by the service ahead of the final budget in February 2025. There may also be changes in the delivery model of planned maintenance as the tenders are currently being evaluated. It is currently assumed the cost of delivery under the new arrangements, will be in line with budget.

2.29 The pressures across the HRA have been significant and will continue to affect the level of resources we have for investment in existing stock as well as new build and wider estate renewal. Building new council homes remains challenging due to viability issues when considering inflation and supply in the construction market against low rents and with borrowing rates not expected to fall as quickly or far as forecast earlier in 2024. It is critical that we ensure long term financial viability of the plan and make decisions on investment that strengthen this position.

30 Year Business Plan and MTFP

2.30 The 30-year business plan has been refreshed to take account of the changes referenced in this report, regarding inflation and other cost pressures. These include the same assumptions as reported for the General Fund on areas such as energy and general inflation as well as others specific to the HRA.

2.31 The Interest Cover Ratio (ICR) sets the limit of borrowing we can take in line with our Treasury Management Strategy. This allows for risk when considering interest rate movements, potential cost increases on schemes and other unknown circumstances.

2.32 The outcome of our refresh of the business plan is shown in Table 3.

Table 3: HRA Borrowing and Headroom Position (MTFP Period)

HRA Headroom Position	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
Maximum Borrowing	324.41	347.93	384.35	425.54	457.16
Actual Borrowing	289.44	340.61	363.35	379.39	387.95
Available New Borrowing	**34.97**	**7.32**	**21.00**	**46.14**	**69.20**
Interest Cover Ratio (Minimum 1.25)	1.43	1.28	1.33	1.42	1.49
Changes Since Q2 September 24:					
Available Borrowing	(19.23)	(10.97)	8.11	28.98	51.17
Interest Cover Ratio	(0.02)	0.02	0.07	0.17	0.24

2.33 The latest forecast shows that we have a balanced budget across the MTFP provided our current expenditure plans are not exceeded. We are also forecasting that the minimum ICR can be met, though this is subject to significant amount of uncertainty as highlighted throughout this report. The main reason for the positive movement from September 2024 was the confirmed five-year rent policy of CPI +1% (previously we had assumed CPI flat).

2.34 Whilst the current position anticipates some additional borrowing headroom in the early years of the business plan, this is not significant and considering the risks highlighted throughout this report and linked to advice from external treasury advisors, additional borrowing should not be taken until we have more certainty on our stock position, contract pricing, and consultation outcomes on policy and legislative requirements.

2.35 The draft budget provides an initial view at a point in time and there will be further changes ahead of the final budget, but these are not expected to be of significant value. This will include an ongoing review of core assumptions (inflation).

Prudent Minimum Balance and Reserves

2.36 The Prudent Minimum Balance (PMB) is a statutory reserve to hold sufficient revenue funds to meet unexpected, unplanned expenditure or shortfalls to income not allowed for within the Councils landlord function. This has been reviewed based on an assessment of budget risk and £8m is expected to be required for 2025/26. The assessment of PMB levels is determined by assessing the risk of elements within the budget (impact and likelihood) together with a lump sum allowance for major risks, such as adverse events including weather, legislative changes, and other uninsurable events. The 30-year business plan assumes that PMB will inflate each year, in line with the increased expenditure and income budgets, but will be subject to an annual risk assessment. The detailed assessment for 2025/26 has been shown below and will be reviewed ahead of the final budget to Cabinet in February 2025, as part of the wider risk assessment of the whole budget. A detailed calculation of the HRA PMB can be seen in Annex Q.

2.37 In 2024/25 we have identified savings in excess of £3m (Period 6 Cabinet Budget Monitoring Report). We have allocated these savings to strengthen the reserve balances in the HRA to ensure that there are sufficient funds to manage the increasing risks the HRA is exposed to, particularly in the short-term.

Borrowing

2.38 The HRA will need to borrow to refinance maturing loans and new capital investment that the HRA cannot resource from existing resources or external grant. The primary objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should long-term plans change is a secondary objective.

2.39 Advice from our treasury management advisors has consistently recommended deferring capital expenditure where possible, or if not, then to borrow internally and only for a temporary period, as they project that interest rates are currently elevated due to the current economic conditions. We will continue to assess the appropriate time to borrow taking account of this advice.

2.40 The HRA is currently able to borrow from the PWLB at 40 basis points less than the GF following a change by the Treasury in June 2023 to provide additional support to HRA's. This additional discount has been extended in the Autumn Budget and runs until March 2026. If the Council borrows internally this cannot disadvantage the GF and we therefore are likely to need to borrow externally given the differential in borrowing rates.

2.41 Due to the uncertain path of interest rates and borrowing costs, where borrowing is being taken this is likely to be done temporarily given the current expectation that rates will continue to slowly fall within the next 12 months. However, this does mean that the Council will be taking additional risk with interest rate movements and therefore our approach to borrowing will need to be proportionate given the scale of both new borrowing and refinancing over the next one to three years.

2.42 Set out below are a set of principles that will be applied to HRA borrowing decisions:

1. The recent extension of the time-limited HRA preferential borrowing rate means that it will now be available at the time that the business plan model indicates the need to borrow ahead of 31 March 2026. The current plan indicates that £41.8m will need to be borrowed in February 2025. However, there is expected to be capital slippage within year which would result in borrowing needing to be taken at a later date. This will be reviewed and included in the final budget report in February 25.

2. Where GF cash resources and forecasts allow, and subject to analysis of mutual benefit, GF loans may be utilised to fund the HRA refinancing requirement. Any shortfall between the HRA financing requirement and internal loans would be met from new external loans.

3. The HRA borrowing requirement to fund new capital expenditure be met from raising new long-term external loans. The business plan baseline rate for undertaking new long-term borrowing has been increased from 3.5% to 4.2%. This rate is informed by market intelligence and forecasts from our treasury advisors Link and market commentators Capital Economics, and so could change in line with evolving economic conditions. An interest rate risk provision has been included at a further 0.3%, taking the effective interest rate to 4.5%, with a short term additional 0.5% added to years 1 to 4 (2024/25 to 2027/28) making the rate 5.0% during this period.

4. Any new HRA loans supporting refinancing or capital development would most likely be on a maturity basis (interest-only with full principal repayment upon final maturity) and at fixed rates of interest to provide stability and certainty for business planning purposes.

5. When undertaking new long-term borrowing, loan periods will be informed by a) the maturity structure of existing HRA loans and b) latest modelling assumptions on surplus funds available to make principal repayments. We

would apply a cap to the total amount of borrowing due to expire in any one year to help manage future refinancing risk.

6. The Treasury Management Code of Practice requires the Council to set upper and lower percentage limits to control the proportion of loans maturing within time bands. HRA limits are set within the annual Treasury Management Strategy and any HRA borrowing will comply with these restrictions.
7. Final execution amounts and timing of new HRA loans will be informed by future iterations of the HRA business plan model, analysis of cash balances and interest rate forecasts.

2.43 Table 4 below shows a summary of expected HRA borrowing movements.

Table 4: HRA Indicative Borrowing Projection

	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
Balance on 01 April	249.562	289.442	340.610	363.354	379.393
Scheduled repayments	(1.950)	(3.775)	(14.477)	(17.000)	(17.000)
New loans: refinancing	-	-	9.000	11.500	9.500
New loans: capital (exc' SHDF2)	26.912	27.581	28.221	21.539	16.060
New loans: SHDF2 (indicative)	14.917	27.362	-	-	-
Balance on 31 March	289.442	340.610	363.354	379.393	387.953
* Weighted average borrowing rate	3.9%	4.0%	4.1%	4.2%	4.1%

* The average borrowing rate reflects the average rate of existing loans and assumed rates on new loans (including refinancing), excluding additional interest rate risk provision.

3. Next Steps

3.1 The HRA Business Plan will be further refreshed ahead of the Final Budget in February to refine some of the assumptions, reflect the latest data available and to take account of the impact of changes proposed by government, particularly in relation to RTB reforms. Beyond this time horizon we would expect to make further key changes to the Business Plan to reflect the output from Condition Surveys on the housing stock, the outcome of the consultation on rents and outcome of the procurement of the Repairs contract.

List of Annexes

Annex O	HRA Pressures, Reductions and Technical Adjustments
Annex P	HRA Draft Capital Budget
Annex Q	HRA Prudent Minimum Balance