HOUSING REVENUE ACCOUNT (HRA)

BUSINESS PLAN 2024 - 2064

Addendum

Version: 15 October 2024

1. Introduction

This Addendum to our HRA Business Plan summarises the impact of potential changes to national rent policy that (at the time of writing) are expected to be announced on 30 October 2024. It provides an interim position, which will be updated once the details of government policy are known.

We have presented the potential changes as alternative scenarios to those that are already described in the HRA Business Plan.

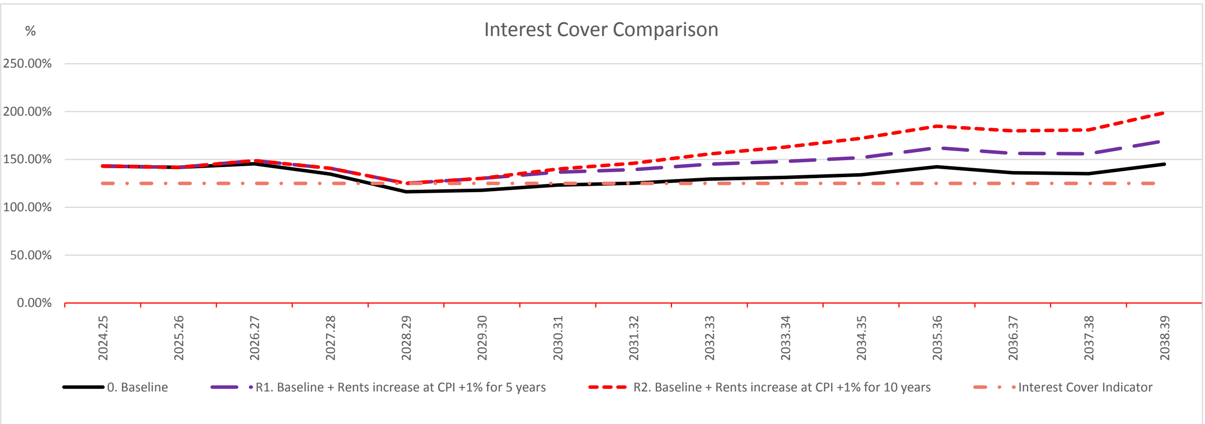
2. Effects of National rent policy

The government is expected to make an announcement as part the 30 October 2024 Budget that will provide more certainty over future national policy on social rents. While details of the government's intentions are not currently available, representatives of local authorities and housing associations have advocated rent increases at CPI+1% for ten years.

In the absence of a clear indication from government we have modelled the impact on the Baseline position of two separate rent increase scenarios. These are:

- Rents increase by CPI plus 1% for 5 years from 2025/26 (Scenario R1)
- Rents increase by CPI plus 1% for 10 years from 2025/26 (Scenario R2)

The chart below illustrates the effect of these two scenarios on the affordability of HRA debt, compared with the Baseline position from the HRA Business Plan:



Under both Scenario R1 and Scenario R2 the HRA continues to see a similar drop in interest cover over the medium term. Performance dips to the minimum level in 2028/29 then starts to improve from 2029/30, which would be the last year of CPI+1% rent increases for Scenario R1. Thereafter, Scenario R2 performs better because the HRA would benefit from a further 5 years of rent increases at CPI+1%.

By 2031/32, which is the mid-point in the above chart, the authority has rebuilt its capacity for new borrowing under both of the rent increase scenarios. In that year, the amount of additional borrowing that the authority could afford would be in the region of:

- £70m for Scenario R1 (5 years of CPI+1% rent increases)
- £100m for Scenario R2 (10 years of CPI+1% rent increases)

These scenarios indicate potential levels of affordable future borrowing while we await confirmation of government policy. They imply scope for the authority to use additional borrowing when delivering its forward programme of HRA capital projects to 2031/32, provided that the government permits rent increases of CPI+1% for at least 5 years from 2025/26.

Note that the authority would also be able to increase the financial capacity of the HRA further by adopting a package of choices for improving financial performance, which is similar to that outlined under Scenario A in the HRA Business Plan.

3. Key messages

National rent policy decisions might allow the HRA to afford greater levels of borrowing to finance its capital programme from 2029/30.

If rents increase by CPI+1% for 5 years from 2025/26 (Scenario R1), the HRA would be able to increase the amount of borrowing it can undertake to finance its capital programme by approximately £70m between 2029/30 and 2031/32.

This additional capacity would be available for the authority to use to pay for its choice of capital priorities to 2031/32, which might include any combination of:

- Delivering new homes
- Investing in existing homes
- Decarbonising the housing stock
- Other capital and regeneration projects

The authority can further extend the long-term financial capacity of the HRA by implementing a package of choices similar to Scenario A and ensuring that it continually maximises income, while reducing costs.

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