Appendix A.1 – 2025/26 HRA Budget & Medium-Term Financial Plan

Introduction

1. The Housing Revenue Account (HRA) is a separate ring-fenced account and covers all activities of Bristol City Council as a landlord. A 1-year revenue budget for 2025/26 and a 5-year capital programme 2025/26 – 2029/30 are being presented for approval. The budget has been set to ensure that the HRA can deliver the necessary services for tenants and other stakeholders, to ensure they are safe and secure in their homes and communities.

2. The HRA budget is set each year in the context of the 30-year business plan. The Business Plan is a statutory requirement used to assess the ongoing financial viability of the HRA and its ability to deliver the Council's social housing priorities.

3. The business plan assumptions are reviewed annually to determine whether any aspects of the strategy need to be revised, allowing for horizon scanning and the identification and mitigation of business risks in the short, medium, and long term. Sensitivity analysis is undertaken to ensure that effective contingency plans are considered and that appropriate reserves are maintained in light of any change in assumptions.

4. This report sets out the final proposed budgets for 2025/26 and provides an update to the refreshed HRA Business Plan, along with highlighting the key assumptions required to reflect national policies and financial impacts to the HRA.

5. The business plan projections reflect the income and expenditure required to manage the landlord functions and, at the same time, work towards the Council's objectives to investing in existing residents' homes and creating capacity to fund the development of affordable homes for rent.

6. This report does not attempt to summarise all aspects of the HRA business plan but aims to highlight areas to be noted and options considered for future budget strategy.

24/25 Financial Position

7. The 2024/25 HRA budget approved in February 2024 has had to evolve due to multiple pressures during the year and this is summarised on Table 1 and Table 2 below. The £13,227k pressures on the Revenue account have required the capital programme to be scaled back beyond the typical natural slippage. A significant amount of work has gone into addressing these pressures and adjusting the 24/25 HRA budget. This work was concluded at the beginning of October 2024 and this allowed work to commence on confirming the 25/26 budget. Work will be ongoing to the end of the financial year to monitor the 24/25 HRA budget and associated risks, particularly with regards to Damp and Mould, which is partly dependent on weather and tenant awareness.

Table 1. 2024/25 revenue forecast at P8

Revenue Budget Items	Budget Value (£k)	Current Forecast – P8 (£k)	Variance (£k)
Income	(149,920)	(147,572)	2,348
Repair & Maintenance (HIP Revenue)*	44,543	45,793	1,250
Supervision & Management	40.141	48,051	7,909
Special Services	14,238	12,414	(1,823)
Depreciation & impairment of non-current assets	31,535	32,935	1,400
Net interest, pension & other non-chargeable	10,407	11,429	1,022
Other – Debt, movements, rent & taxes	2,091	3,212	1,121
HRA Surplus	**(6,965)**	**6,261**	**13,227**

Table 2. 2024/25 capital forecast at P8

Capital Budget Items	Budget Value (£k)	Current Forecast – P8 (£k)	Variance (£k)
Planned Programme (HIP Capital)*	95,979	69,712	(26,267)
New Build & Land Enabling	255,757	74,185	(181,572)
New Housing Management System	1,302	2,102	800
Fleet Replacement	5,000	200	(4,800)
Total Capital	**358,038**	**146,199**	**(211,839)**

Income

8. Rent income has been increased based on CPI + 1% for the next 10 years. Government consultation on a long-term rent agreement will likely involve a 5 or 10-year agreement. Savills have advised a 10-year period, but there remains risk and uncertainty until the outcome of the consultation is known. A scenario whereby rents are increased for 5 years only will be included as a stress test on the plan. The other signification income changes incorporated in the HRA financial model include:
    a. Income Recovery – In 24/25 Bad Debts are forecast to increase to levels significantly over the current budget (circa £0.8m). This assumption has been carried forward into the 25/26 Business Plan and creates pressures on the Revenue Position. A prudent assumption of a 5% reduction per year for the first five years of the plan has been made. The HRA is actively involved in the Council Wide debt recovery improvement programme.

    b. Service Charge recovery of £14.7m - The forecast for 24/25 is £1.5m lower than budgeted income as it was not possible to implement an in-year increase, this can only be legally achieved during the annual rent increase. A dedicated resource is now in place to deliver this, and the recharge of circa £1.2m for Grounds Maintenance will commence in 2025/26, with an additional £1m relating to a new Service Charges Management Fee.

    c. The expansion of the Joinery Shop was agreed on 01/11/2024 at Homes and Housing Delivery Policy Committee. The expansion is expected to result in additional income to the HRA as it enables the opportunity to provide fire doors to both the Bristol City

Council Corporate Landlord, and external bodies. A prudent estimate of 25% of additional income has been assumed within the business plan as relating to non HRA supply, offset by the full cost of the relocation and expansion of the service.

d. Void Losses are currently forecast at circa £1.9m for 2024/25. The planned reduction against void losses for 2024/25 will not be met as the resource allocated to this workstream was redirected to clearing the backlog of repairs as a result of the Regulatory Judgement. As with Bad Debts above, this position has been carried forward into the 2025/26 Business Plan, with a planned reduction assumed over the first five years of the plan from circa 120 days at present, to 70 days in 2025/26, reducing by a further 5 days per annum over the period of the Medium Term Financial Plan.

Do Everything Investment Scenario

9. The starting point for the development of the HRA budget was to consider the 'Do Everything' scenario. This unconstrained investment scenario includes all the investment needs and the above income changes.

10. The Housing Investment Plan (HIP) forecast to address all the known capital and revenue needs (e.g. Do Everything) is shown on Figure 1. The increase in revenue to £47.6m (before required savings) for 25/26 from £44.5m is driven by increase expenditure on Response Repairs, Relets, Disrepair compensation, compliance check activities and a new survey programme to fully understand the investment needs. The 'Do Everything' capital requirement would see investment levels increase from a forecast spend of £69.8m in 2024/25 to £133.1m in 2025/26. The significant increase is driven by slippage in previous years, block refurbishment including cladding replacement, capitalisation of renewals, planned renewals and energy efficiency wave 3 projects. This reflects the known investment needs, but given the limited available asset data, the true investment needs are potentially higher. A £0.9m survey programme will commence in 25/26 to accelerate and expand the existing survey programme started in 24/25. This will provide the asset data to start quantifying the true asset investment need.

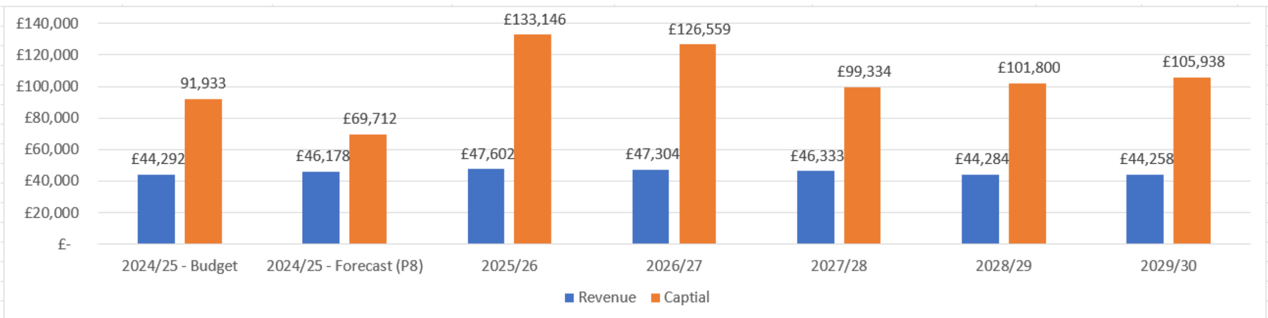


Figure 1. MTFP capital and revenue investment needs, plus 2024/25 budget and current forecast values.

11. The 'Do Everything' scenario for Housing Development is based on the original 24/25 programme shown in Table 3 below. The programme consists of Direct Delivery, Developer led Acquisitions and General Acquisitions from the open market.

Table 3. 'Do everything' Housing Development investment and output forecast.

	2025/26	2026/27	2027/28	2028/29	2029/30
Investment forecast (£'000)	105,650	80,496	49,322	216,820	207,247
Number of new homes	448	382	121	693	616

12. Non-HIP Revenue items covers estates and tenant management, back-office teams for response repairs, relets and planned programmes, energy costs and recharges to the general fund for support services. These are base costs and any increases have been governed by the R1 and R2 process. The significant changes in these costs for 25/26 include:

    a. Planned Programme Overheads: £4.2m of the 24/25 forecast overspend is due to waking watch, where the total forecast spend is £6.3m. The forecast in 25/26 for waking watch is assumed to be £2m for 25/26.

    b. General fund recharge: This increased from £7.5m to £8.7m in 24/25. It is assumed to remain at £8.7m + inflation in 25/26.

    c. Response Repairs & Relet overheads: The additional staff needs from the Consumer Standards have increased the budget from £6.2m in 24/25 to a current forecast of £8.1m. This is forecast to be £8.5m in 25/26 due to the full year additional staff costs.

13. The inclusion of the above investment needs within the HRA budget model produced the reserves forecast shown on Figure 3. The model indicates the 'Do everything' scenario would lead to the HRA running out of money in 3 years and does not represent a balanced budget. Furthermore, the associated capital programmes would be undeliverable given the increase in work between 24/25 and 26/27.

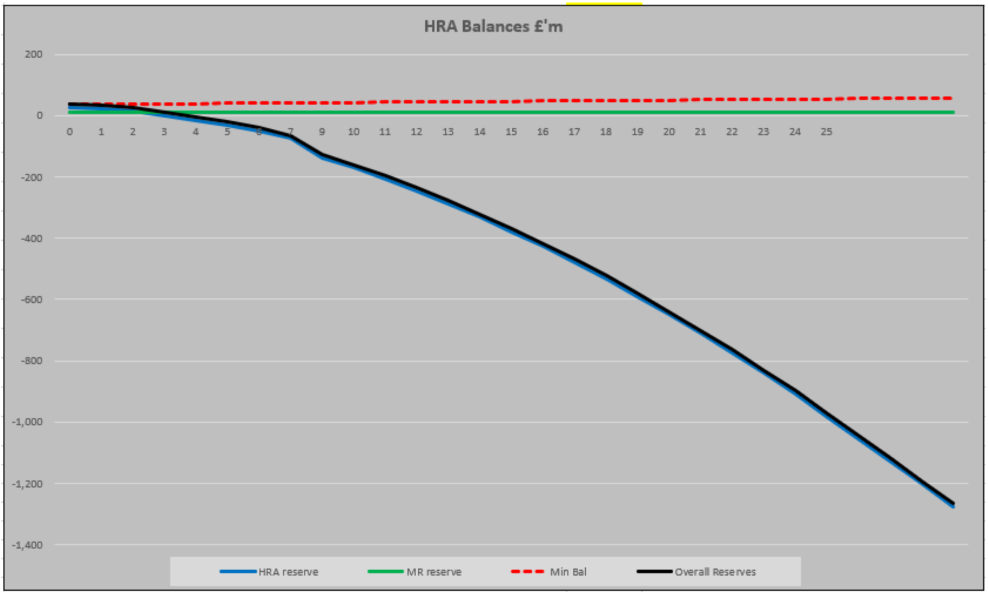
14. 

Figure 2. HRA reserves profile from the 'Do everything' investment scenarios indicate BCC Housing would runout of money in 3 years and breach its minimum reserves covenant in year 1.

‘Must Do’ Investment Scenario

15. The inability to proceed with the ‘Do Everything’ scenario led to the assessment of multiple investment scenarios to identify the combination of inputs that produced a balanced budget with the lowest level of risk. The scenario that best achieved these criteria uses the inputs described below.

16. The Service Value Framework was used to quantify and assess ‘Must Do’, ‘Could Do’ and ‘Should Do’ HIP revenue scenarios. Service Value Framework (SVF) provides a clear line-of-sight between the HRA’s assets and activities, and its outcomes so the impact of each investment is fully understood. A ‘Must Do’ scenario was selected for the balance budget, although there was very little difference between ‘Must Do’ and ‘Should do’. The revenue budget will increase from a 24/25 forecast of £44.5m to £46.5m in 2025/26 (pre-efficiency). The budget includes increases for electrical testing, resolution of damp and mould cases, general increasing trend in response repairs due to the aging asset base and completion of asset surveys for high-rise blocks so a ‘Whole Property’ investment profile can be generated. These increases have been mitigated through the improved alignment of the revenue expenditure with the capitalisation policy. This has seen £6.4m of revenue costs being moved to capital. Also, the External Maintenance programme has be halted and replaced with additional capital expenditure for roofing and window replacement. A whole-life costs assessment of external maintenance will be completed during 2025 to establish the least cost approach.

17. The Service Value Framework was also used to generate ‘Must Do’, ‘Could Do’ and ‘Should Do’ HIP capital scenarios. A ‘Must Do’ scenario represented both a balanced and deliverable capital programme with investment increased to £87.7m for 2025/26 from £69.8m forecasted in 2024/25. The programme of works is predominantly focused on safety driven projects and ongoing block refurbishment. The decision was taken to include 1,000 dwellings in the Social Housing Decarbonisation Fund (SHDF) project to ensure the capability is available in future years to deliver this type of work. The planned roofing and window replacement projects have been included to mitigate the pausing of the external works programme.

18. A second scenario has been created for Housing Development programme based on only completion of the existing contract commitments. The property Acquisition programme will pause in 2025/26 and re-start in 26/27. The restart of this programme requires further assessment given the need to focus on tenant safety and ensure sufficient capital is available in future HRA budgets to do this.

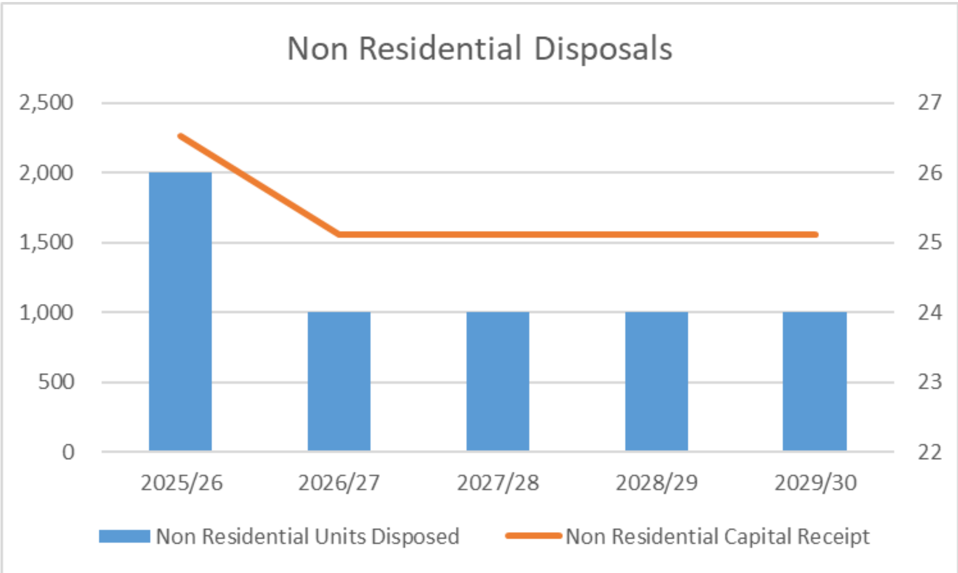
19. No additional scenarios have been considered for the non-HIP revenue costs. The Estates Management, Business Development and Delivery supervision and management staffing level are required to remain stable in order to implement the required changes in the short term. Maintaining the resource levels will ensure the ‘Must Do’ activities are delivered, help to mitigate the impact from not undertaking certain activities, enable the delivery of the Consumer Standard’s requirements and evolve the efficiency of both the MTFP and 30-year investment plans. It is anticipated these costs will change in future years following the implementation of NEC and other change activities to drive efficiency. The HIP Capital supervision and management staffing costs have been included within the HIP capital budget.

20. The ‘Must Do’ scenario includes an Asset Disposal programme to raise capital and contribute to the balancing of the HRA budget. An Asset Disposal policy is currently being established through

the normal decision-pathway. Assets that are surplus to requirements or significantly underperforming financially with minimal social value when becoming VOID, will be passed through the Disposal process. The HRA currently has a number of non-residential (e.g. offices, shops, garage sites and open parcels of land) assets, and a process has started to review their value. Furthermore, the HRA also owns a number of residential properties with the following characteristics that supports their disposal:

a. Expensive to maintain as they require specific components like sash windows and external access typically involves high scaffolding costs.
b. Thermally inefficient and will be expensive to achieve EPC C rating.
c. High market value.

21. The forecast number of properties and capital income included in the financial model is shown on Figure 4. The reduction in rent and operational maintenance costs from the proposed disposals has been considered within the financial model, along with the constraint that the income from disposing of these assets can only be used for capital purposes.



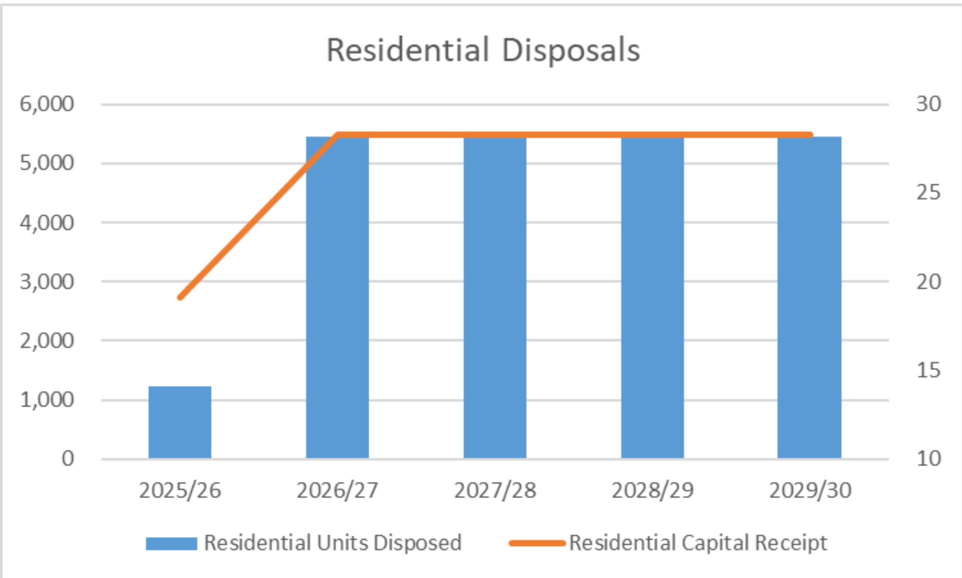


Figure 3. Proposed capital income from selling non-residential and residential assets

22. In additional to the above, 33 long-term VOID properties are being assessed for disposal and the potential capital income could be up to £10m. Also, several proposed Housing Development sites, include Combe and Sea Mills, could be sold to generate approximately £1.8m of capital income. This income has not been included in the proposed HRA budget due to the uncertainties associated with the disposal of these sites. Work will continue to review these assets to provide the opportunity to generate additional capital income, which can be used for projects to reduce revenue expenditure.

23. Producing a balanced HRA budget has required the inclusion of a £8m revenue efficiency and savings programme in 2025/26 and £9.7m in 2026/27. This is a significant challenge given the barriers to delivering the 24/25 efficiency programme due to the focus on Consumer Standards. Furthermore, there is a need for a long-term efficiency and transformation programme to improve service, reduce the revenue expenditure, and subsequently enable greater capital expenditure. It is expected this longer-term (e.g. 2 to 5 years) need will be delivered through the recommendation coming from the Strategic Housing Review. The HRA budget has included the investment in Table 6 to support this change, which is assumed to deliver efficiencies exceeding the investment made.

Table 4. Business change funding

Activities	**2025/26** (£'000)	**2026/27** (£'000)	**2027/28** (£'000)	**2028/29** (£'000)	**2029/30** (£'000)
New Senior Management	403	805	805	805	805
Business Change Funding	500	1,000	2,000	2,000	2,800

24. It is proposed the 25/26 £8m revenue efficiency will be delivered through a targeted programme of works with the projected efficiencies being tracked using a Register that is reported on monthly. The projects making up the programme will be financed using the £0.5m business change fund for 25/26, and the management and reporting on the programme will be delivered by the Asset Strategy team. Each project will have a cost benefit assessment to quantify the efficiency opportunity. An initial list of efficiency opportunities accounting for the £8m efficiency target is contained in Appendix H. Immediate further works is required to develop these projects and identify further savings to achieve the efficiency target for 25/26.

Proposed Revenue Budget

25. The above inputs were used to create a scenario that produced a balanced HRA budget with the least risk consisting of predominantly 'Must Do' activities and does protect investments associated with moving away from a C3 Consumer Standard Position. Furthermore, the scenario is considered deliverable based on historic delivery activity levels. The proposed HRA budget is summarise in Table 1 below.

Table 5. Summary of the HRA 2025/26 budget

Proposed 2025.26 HRA MTFP Income and Expenditure	2024.25 Budget £m's	2024.25 P8 Forecast £m's	2025.26 Budget £m's	2026.27 Budget £m's	2027.28 Budget £m's	2028.29 Budget £m's	2029.30 Budget £m's
Dwelling rents	-136.322	-136.648	-140.462	-147.211	-153.466	-158.861	-164.219
Voids	0.725	1.896	1.239	1.228	1.194	1.142	1.094
Non-Dwelling rents	-1.027	-0.999	-1.142	-1.168	-1.192	-1.217	-1.242
Charges for Services and Facilities	-13.210	-11.590	-14.346	-16.257	-16.794	-17.303	-19.452
Contributions Towards Expenditure	-0.086	-0.231	0.310	0.098	0.068	0.022	-0.025
TOTAL INCOME	**-149.920**	**-147.572**	**-154.401**	**-163.310**	**-170.190**	**-176.217**	**-183.844**
Repairs & Maintenance	44.543	45.793	43.143	43.646	44.024	44.136	46.969
Supervision & Management	38.041	41.751	41.868	44.381	46.493	47.739	48.126
Waking Watch	2.100	6.300	2.000				
Special Services	14.238	12.414	13.489	14.490	15.189	15.870	16.557
Rents, rates, taxes and other charges	0.581	0.912	0.912	0.954	0.977	1.000	1.023
assets	31.535	34.735	33.594	34.366	35.088	35.825	36.541
Debt Management	0.041	0.045	0.045	0.046	0.047	0.048	0.049
Movement In Doubtful Debt Provision	1.469	2.255	2.223	2.236	2.221	2.190	2.176
TOTAL EXPENDITURE - CORE SERVICES	**132.548**	**144.205**	**137.274**	**140.119**	**144.039**	**146.808**	**151.441**
NET COST OF CORE HRA SERVICES	**-17.373**	**-3.368**	**-17.127**	**-23.191**	**-26.151**	**-29.409**	**-32.403**
Interest & Investment Income	-2.822	-3.600	-1.623	-1.445	-1.516	-1.604	-1.683
Net interest payable, pension costs and other non operational charges	13.229	13.229	12.562	16.705	18.692	19.684	20.014
(Surplus)/Deficit for the year on HRA Services	**-6.966**	**6.261**	**-6.188**	**-7.931**	**-8.975**	**-11.329**	**-14.072**
HRA Balances Brought Forward	**-71.298**	**-71.298**	**-34.910**	**-27.296**	**-27.924**	**-28.510**	**-29.109**
Surplus For The Year	-6.966	6.261	-6.188	-7.931	-8.975	-11.329	-14.072
Capital Expenditure funded from Revenue	25.915	30.126	13.802	6.337	6.891	8.997	11.529
Set Aside For Debt Repayment	0.000	0.000	0.000	0.965	1.499	1.734	1.960
HRA Balances Carried Forward	**-52.348**	**-34.910**	**-27.296**	**-27.925**	**-28.509**	**-29.108**	**-29.692**

*The 2024/25 budget contained a number of assumed savings against Service Charge Income, Repairs and Maintenance, Management Costs and Void Loss totalling circa £9m. The targets set were extremely challenging, and whilst progress was being made towards delivering some of them, the impact of the C3 Regulatory Judgment redirected resources away from these areas. The 2025/26 proposed budget requires savings of £8.0m, which are currently allocated against Repairs and Maintenance and Management Costs.

26. The significant use of reserves as highlighted in the above table is as a direct result of the revenue overspends suffered during the year. The budgeted surplus position of £7.0m has become a budgeted deficit of £6.3m, a movement of £13.3m, which must be funded from reserves. In addition, the overspend has reduced the Interest Cover Ratio to a point where borrowing is not possible, and so more reserves are being utilised to part fund the capital programme. Table 6 provides a reconciliation of the two positions.

Table 6. Summary of the Movement on Reserves (Budget v Forecast)

	Budget (£m's)	Forecast (£m's)	Movement (£m's)
(Surplus)/Deficit (To)/From Reserves	(7.0)	6.3	13.3
Use of Reserves To Fund Cap. Ex.	25.9	30.1	4.2
Net Use Of Reserves	18.9	36.4	17.5

Capital Programme

27. The Capital Programme is spent on providing or improving assets, which include land, buildings, and equipment, and will be used in providing services for more than one financial year. The

programme is funded through a combination of capital grants, capital receipts, capital reserves, contribution from revenue and borrowing.

28. In reviewing the overall HRA financial position, the Capital Programme was amended to ensure that any revenue implications from capital decisions were considered in building the revenue budget.

29. The 5-year HRA Capital programme includes a baseline New Development Programme for new council homes of £207 million. This is a significant reduction from the £946 million allocated in the 2024/25 plan. It also includes the capital Housing Investment Plan (HIP) totalling £297 million. The reduction in capital programmes is as a result of the revenue impact of the Regulatory Judgement reducing capacity to borrow to invest in the short to medium term, as well as the need to have a better understanding of the current condition of our existing housing stock, before any financial commitments can be made around non statutory delivery. This is deemed to be a prudent and reasonable approach.

30. The total proposed HRA Capital Programme budget for 2025/26 – 2029/30 is at £508 million as shown in table 3.

Table 7. Capital Medium Term Financial Plan.

Proposed 2025.26 HRA MTFP	2024.25 Budget £m's	2024.25 P8 Forecast £m's	2025.26 Budget £m's	2026.27 Budget £m's	2027.28 Budget £m's	2028.29 Budget £m's	2029.30 Budget £m's
Capital Programme							
Home Improvement Programme	95.979	69.712	88.546	69.549	59.415	43.253	35.831
Development Programme	255.757	74.185	89.227	44.71	28.327	22.535	22.535
Other Capital	6.302	2.302	5.778	0	0	0	0
Total Capital Programme	**358.038**	**146.199**	**183.551**	**114.259**	**87.742**	**65.788**	**58.366**

31. The capital programme detailed above demonstrates the Council's commitment to ensuring existing tenants homes are safe and healthy, as well as ensuring we continue to deliver new homes to help meet Bristol's housing crisis where it is affordable to do so. However, we do acknowledge that such significant ambitions are subject to the constraints of market capacity to deliver. Market conditions will be kept under constant review during 2025/26. Where there are strong indications of insufficient market capacity, the capital programme will be reshaped and reprioritised.

32. The HRA business plan seeks to fund capital expenditure by utilising all available receipts (both grants and capital receipts) as the first call, then balances available within the Major Repairs Reserve (whilst observing a minimum balance of £10 million). Available resources from the HRA itself (whilst maintaining a minimum balance of £27.3million) will next be called upon after which, any residual funding required will be via borrowing.

33. New borrowing for both developments and acquisitions and investment in existing properties are required to be repaid on the following basis:
    a. Development and Acquisition borrowing: 50-year repayment on an amortised repayment basis commencing from the year after the loan is drawn down.
    b. Investment in Existing Stock borrowing: 30-year repayment on an amortised repayment basis commencing the year after the loan is drawn down.
    c. Due to the currently high level of interest rates, in line with the Council's Treasury Strategy, the HRA will fix any new debt for a short term period, before refinancing at what are expected to be lower interest rates going forward. Any debt refinanced will still be bound by the need to repay within the original term based on when the initial debt was incurred, of a maximum of either 50 or 30 years aligned with the Council's Treasury Management Strategy.

34. Further details on the investment programme (HIP) and the New Build & Acquisition are set out in appendix A.2 and A.3 respectively.

HRA financing and reserves

35. The scales of the HRA capital programme will requiring borrowing to support the investment in safe home and creation of new homes. The business plan assumes borrowing of £196.7 million to fund investment in existing stock, and the delivery of c. 730 new homes between 2025/26 and 2029/30. Capital repayments of £93.8m are forecast to be made over the life of the plan.

36. The interest rates in Table 8 are attributed to new borrowings is within the HRA budget.

Table 8. Assumed interest rates

Year of Plan	Interest Rate
1	4.5%
2	4.5%
3	4.5%
4	4.5%
5	4.5%

The average interest rate on existing loans is 4.61%. These loans total £245m. The annual interest charge of these loans is £11.3m. The above interest assumptions are in line with the base case rates as set out in the capital financing budget.

37. The inflationary cost impact of any capital works remains a significant risk to delivery at present, and this will be closely monitored.

38. The HRA operating reserve as of 31st March 2024 was £71.3 million. Currently, the business plan assumes a minimum operating reserve balance of £27.3 million, this represents three months of cashflow as well as an additional £5 million to reflect the current economic climate and risk exposure. The operating reserve is necessary to manage unexpected deficits, or for smoothing in-year budget pressures due to timing differences between the cost of building new homes and receiving rental income.

39. The Major Repairs Reserve, used to fund capital investment and financed through revenue payments, stood at £10.3 million as at 31st March 2024. A minimum reserve balance of £10 million is maintained on this reserve.

40. In addition to the need for the HRA to balance competing demands, such as investing in supply of new homes, fire safety, damp and mould and other Building safety requirements as well as energy improvements, the cost of living crisis and the impact of the Regulatory Judgement on the HRA's financial outlook have further stressed the importance of maintaining an adequate level of reserves.

30- Year Business Plan

41. The Housing Revenue Account 30-year Business plan details how the Council uses residents' rents, service charges, grants and borrowing to manage, maintain and develop properties.

42. The Plan was last revised in October 2024 as a result of the revenue impact of the Regulatory Judgement resulting in an unfunded capital position and this report provides an update on the refreshed business plan, reflecting the delivery of the new build programme, Home Improvement Programme (both Revenue and Capital), current policy and finances increased borrowing costs & inflation. It also outlines the Council's continued ambitions to build more council homes where appropriate and affordable, invest strategically in improving the quality of current stock and improve energy efficiency.

43. The objectives of the 2025 HRA business plan are to show sustainability of the Council's existing homes, demonstrate the viability of the Authority's plans into the longer term and identify and source funding for investment in both existing stock and new developments. The refreshed business plan encompasses projected income and expenditure and provides assurance that the HRA will retain adequate cash balances and achieve viable surpluses over the 30-year lifetime of the business plan.

44. There is insufficient funding available for the proposed programmes without taking on additional debt. The refreshed 30-year business plan is projecting total borrowings of £452m with new borrowing totalling £207 million (£113m net after repayments) over the life of the plan to deliver the new developments and additional investment in the existing stock. This is moderately higher than the existing debt of £245 million relating to the self-financing settlement of 2012. The 2024/25 Business Plan assumed additional borrowings of £1,905 million. The reduction in the planned borrowing requirement over the previous plan is as a result of the need to re-prioritise where the HRA spends its money between revenue repairs, improving services for tenants, investing in existing stock and delivering new homes. It should be stressed however, that the plan does demonstrate significant capacity for additional investment beyond year four. However, as detailed elsewhere in this report, the overall current condition of existing housing stock is unknown at this point. Significant efforts are being made to understand the condition of the stock. Once this intelligence is received and understood, the appropriate plans will be drawn up for future investment in existing stock and new delivery. Until such time, it would be unwise to commit to investment spend that may become undeliverable and/or unviable during the intervening period.

45. The Council has set a limit for prudential borrowing (based on a minimum Interest Cover Ratio (ICR) of 1.25) whilst ensuring that minimum balances are held within the HRA & Major Repairs Reserve. Previous policy was for new borrowings not to be refinanced. However given the current economic climate and level of interest rates, along with expected reductions to these rates in the short to medium term, any new borrowings taken on by the HRA during 2025/26 will be done so on a short term and then refinanced for the remainder of the existing term (50 or 30 years).

46. The ICR is set to a minimum which provides comfort that if there were a sudden drop in income or increase in operating costs, there would be sufficient headroom to continue to cover debt interest. The ICR in 2025/26 is 1.36. Although this indicates that borrowing is affordable, this will be done so after utilising external sources of finance such as grants, capital receipts including 1-4-1 income and revenue contributions before any sums are borrowed. Table 9 demonstrates the plan is compliant with the ICR covenant (a minimum of 125%) and Table 10 shows the level of 'comfort' against the ICR:

Table 9. Medium term Interest Cover Ratio for the proposed balanced budget.

Metrics	1	2	3	4	5
ICR	1.36	1.25	1.42	1.52	1.64
Min ICR	1.25	1.25	1.25	1.25	1.25

Table 10. ICR forecast and levels of comfort.

Year	**ICR Level**	**Comfort (£m's)**
2025/26	1.36	1.425
2026/27	1.25	0.013
2027/28	1.42	3.246
2028/29	1.52	5.263
2029/30	1.64	7.844

47. Whilst there is a small degree of comfort against our Interest Cover ratio, it is the advice of officers that this capacity is not utilised at this point in order to fund capital works over and above those currently included in the Business Plan. As has been experienced over the last couple of financial years, unknown shocks have the capacity to create significant revenue pressures, which themselves can lead to severe restrictions on the HRA's ability to fund capital spend. This has been most starkly demonstrated during 2024/25 when the pressures as a result of the Regulatory Judgement resulted in a £53m in year capital funding pressure which required significant in year adjustment of the Business Plan and reduction/re-prioritisation of capital spend. If another Barton House scenario where to occur and revenue savings could not be found, it is likely that the HRA would breach both its ICR and Minimum Reserves covenants. In order to combat this, it is proposed to introduce a minimum 'comfort' requirement against the ICR of up to £5m from year 1 to year 5 (2029/30), at which point there is sufficient excess coverage to enable this to happen and still provide further capacity to invest.

48. The level of debt compared to the prudential limits (ensuring that the ICR does not fall below 1.25). Taking into consideration the paragraph above, the excess ICR shows that the plan is able to begin funding increasing investment in existing and new stock from 2028/29 onwards, where comfort against the ICR is in excess of £5m. Figure 4 shows projected borrowings against borrowing capacity over the 30 years of the Plan, and demonstrates its ability to support

additional borrowings from year 4 (2028/29); The gap between the blue line (current debt) and the red line (borrowing limits) is effectively the borrowing headroom available. Repayment of all new borrowing begins in the financial year after the loans are drawn down.

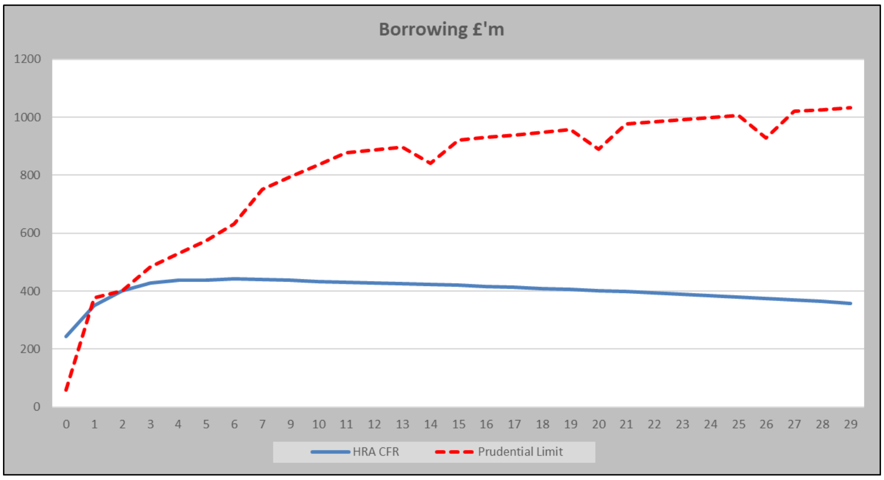


Figure 4. Projected Borrowings vs Borrowing Limit

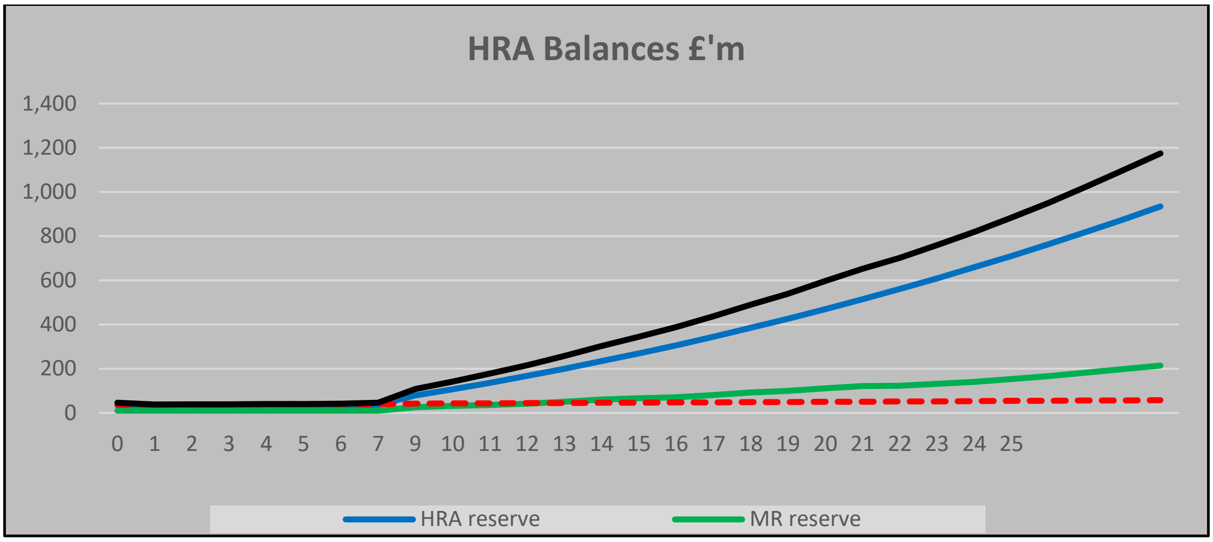
49. The above graphs and tables demonstrate that the 'Must Do' scenario delivers a balanced and compliant financial plan, albeit not without risks as identified at Appendix D. From year 4 (2028/29), the plan begins to demonstrate a degree of comfort against the ICR metric, and borrowing capacity. This comfort allows the HRA to raise additional borrowings required to invest to a greater degree in both our existing stock, and the delivery of new homes. However, at this point in time, given the issues the service faces around data quality and intelligence on the condition of our stock, we are not yet in a position to determine what the shape of future investment will look like.

50. As a result of the above, the proposed Business Plan being presented is considered to be an 'interim' position, until such time over the coming 2-3 years, that a robust, evidence-based Asset Management Strategy can be drafted and factored into the plan.

51. Figure 5 below illustrates the accumulation of all the reserves that make up (black line) the projected balances. The core HRA reserve balance is maintained at the minimum balance of £27.3 million (including inflation) and increases to a projected balance of c. £934 million in 30 years, whilst the Major Repairs Reserve remains at £10million. The figure represents a positive position in that debt repayment levels are achieved whilst keeping minimum balances and the HRA reserve begin to accrue above the minimum level from year 7 of the plan. This demonstrates that there is capacity within the plan to borrow or reconsider options in respect of debt repayment.

52. It is also noted that this level of reserves is significant and is not an effective use of HRA funds. It is therefore worth re-emphasising the points made above regarding this being an interim plan until the condition of our stock is known and robust plans can be drawn up to invest economically, efficiently and effectively. These plans will be factored into future Business Plan refreshes at the appropriate point, and undoubtedly will require the use of a significant amount of these reserves.

Figure 5. 30 year reserve forecast for the proposed balanced budget



HRA Business Plan Model – Key Assumptions

53. The 2024/25 HRA Business Plan was recently refreshed to reflect the latest assumptions on inflation and income & expenditure budgets. The updated plan includes the proposed investment and capital resources for existing stock and new build developments.

54. A summary of the key assumptions that underpin the 30-year business plan is detailed in table below.

Description	Business Plan Target	Assumption used in Business Plan
Inflation	2%	2025/26 CPI is 1.7% as per September 2024 levels and 2% onwards in line with B.o.E forecasts. Cost inflation in year 1 has been estimated at 2.6% to reflect the latest economic position.
Efficiency Savings	£34m	As detailed in Appendix H. These re the savings required over the life of the Medium Term Financial Plan
Optimism Bias	N/A	None assumed to reflect increased need for investment around health and safety and compliance works
New Build and Acquisition	728	728 over the term of the MTFP
Minimum HRA Balance	£27.3m	Minimum balance of £26m representing 3 months cashflow. Inflated by CPI throughout the plan.
Rental Income (Dwellings)	CPI + 1%	7.7% increase in 2025/26, 3.3% 2026/27, 3.1% 27/28, 3.1% 28/29, 3% 2029/35, 2% thereafter-
Rental Income (Non Dwellings)	CPI	1.7% 2025/26, 2.3% 2026/27, 2.1% 2027/29, 2% thereafter
Voids	45 Days	Target of reducing void turnaround to 70 days in 2025/26 reducing by a further 5 days until 2030/31 and 45 days thereafter
Pay Award	2%	Pay inflation uplift capped at 5% in 2025/26

Description	Business Plan Target	Assumption used in Business Plan
Bad Debt	1.44%	Equates to £1.9m in 2025/26. 5% year on year reduction until 2029/30.
Interest on Borrowings	4.5%	Existing loans of £245m are on various fixed rates (average 4.6%). Additional borrowing modelled per advice from Treasury based on the year incurred:- 2025/26 Onwards – 4.5%
Minimum Interest Cover (ICR)	1.25	ICR target of 1.25 met across the life of the plan
HRA Debt Balance	£444m (max balance after repayments)	Opening Balance £245m. Estimated position at the end of the plan £358m
Debt Repayment	£93.8m	Debt repayment starts in 2026/27 with £6m set aside for repayment over the course of the MTFP
Right to Buy (RTB's)	475	25 RTB's modelled in 2026/27, reducing to 15 in 2029/30 and thereafter .
Major Repairs Reserve (MRR)	£10m	Minimum balance within the HRA £10m

HRA Business Plan Sensitivities

55. The key sensitivities of the HRA are detailed below:

Rent Increase

56. The Government Rent Standard of September CPI + 1% has been applied for the 2025/26 business plan which results in a rent increase of 2.7% to take effect from April 2025. Future years increases have been modelled at CPI + 1% for the subsequent 10 years after the current arrangement expires. These future arrangements are currently out to consultation, however the indications are from Savills that a 10 year period is the likely outcome. If the consultation were to produce a final rent settlement period of 5 years, then reserves would reduce by £279m. There would be no impact on the level of borrowings within the plan, however, capacity to borrow would be reduced by c. £37m in year 7 (3032/33) rising to £298m by year 30 (2053/54).

Inflation

57. As rent increases are driven by inflation, a higher level of CPI would be of benefit to the plan due to the differential between rental income and costs. A 1% increase in CPI over the first 5 years of the plan the plan would increase HRA reserves by circa £264. However, as with the 2024/25 Business Plan, price and material increases are having significant effect on stock investment and development costs and cashflows within the business plan, increasing the pressure on the HRA budget. Resources that should be used for the delivery of services and development of new build properties are continuing to cover materials and contract price increases. A small percentage increase in inflation against capital expenditure will impact costs and borrowings and will also reduce the overall HRA borrowing headroom. An increase of 5% in 2025/26 capital expenditure

will increase overall programme costs by £9.4 million and borrowing cost will increase annually by £0.4 million.

Interest rate on borrowings

58. Existing loans are all at fixed rates and not subject to interest rate risks. However, for every £1 million of additional borrowing from 2025/26 onwards, there would be an increase in interest payable of circa £45,000 per year. We are planning to borrow £106m in 2025/26, resulting in £4.8m per year interest payment. An increase of 1% on borrowing costs would result in an additional £10,000 of interest payments per £1m borrowed.

HRA & MRR reserves balances

59. The core HRA reserve balance is maintained at the minimum of £27.3million (including inflation) and increases to a projected balance of circa £934million in 30 years. Financing of the Council's investment programme is primarily via the Major Repairs Reserve funded by the annual depreciation charge, reducing the need to borrow to maintain the housing stock. An increase in expenditure or reduction in the rental income will directly impact the level of reserve balances at the end of the year.

Key Changes to the HRA Financial Model

60. Rent increases are projected at CPI plus 1% up to 3035/36 (year 11). The remaining years in the plan assume rent will increase at CPI only. Void rates have been reduced within the plan to reflect the need to reduce void turnaround times to 70 days in 2025/26 and by a further 5 days per annum down to a level of 45 days. Bad Debt provision currently stands at £1.9m. A 5% year on year reduction has been factored in over the life of the Medium Term Financial Plan .

61. It is anticipated that rent increases will be affordable for residents at this level, as 65% of them are in receipt of Universal Credit or housing benefits that will absorb the additional costs. Government announced in their Autumn statement that benefits will be uplifted in line with inflation for 2024/25. Residents who receive no state assistance would see typical rent increases of approximately £11.44 per month.

Changes impacting on the HRA capital and other expenditure

62. Interest on borrowing is modelled at an average of 4.5% over the life of the plan. Inflationary increases (CP1) in the business plan are modelled at 1.7% for income and £2.7% for expenditure in 2025/26, reducing to 2% over the longer term. This reflects current the current and forecast wider economic position.

HRA Capital Programme

63. The capital programme in the model for Housing Investment Plan (HIP) expenditure totals £1.4 billion. The business plan has increased the expenditure derived from the HIP to allow for inflation and a reduction in stock numbers.

64. New Build & Acquisition projected expenditure over the life of the business plan is £0.3 billion.

National and local policies that can impact the HRA Business Plan

65. Government priorities to: improve building and fire safety, landlords' approach to tacking damp and mould, environmental and energy efficiency standards (EPC C by 2030), New Social Housing

Consumer Standards and more proactive regulation are having a significant impact on the investment demands of our existing homes.

66. National housing policies and changes proposed by future Governments could have an adverse impact on the HRA business plan and could require additional resources to address any unexpected changes.

67. The HRA debt cap has been removed and the plan demonstrates that significant borrowing is required to invest in stock and increase housing supply in Bristol. The HRA is also exposed to interest rate fluctuations in so far as the borrowings required by the plan have not yet been arranged and fixed. This could have a significant impact on revenue budgets, future borrowings, and the overall business plan if rates were to remain much higher for much longer than currently anticipated.

68. As detailed in para 58 above, the future rent policy arrangements are currently being consulted on.

69. Although the economy is in a relatively stable position compared to previous years with inflation falling and a further cut to interest rates widely expected in the next year, there remain risks around the possibility of economic recession and external factors continuing to fuel higher than estimated inflationary pressures. These risks, coupled with the impact of the economic crisis that have been baked into the economy could increase the likelihood of non-collection of rents and may, consequently result in elevated levels of rent arrears and bad debt.

70. In May 2019, the UK government declared a climate change emergency, committing to target net zero carbon emissions by 2050. The Council has already made significant progress on its journey to reducing its own corporate carbon emissions.

71. The changes to Right to Buy Discounts announced in the Autumn Statement are likely to have a significant impact on the number of transactions taking place. As a result, we have reduced our forecast sales volumes from 100 per year to 25 per year in the medium term, and 15 per year thereafter.

72. The current level of the cost of borrowing, coupled with rising construction costs from high inflation continues to make the viability of capital projects extremely challenging.

Potential Outcomes

73. The proposed HRA budget is designed to be an interim budget that stabilises the HRA financial position, keeps tenants safe, allows progress away from a C3 consumers standards position and provides the time and opportunity for to better understand the condition of the housing stock, allowing the production of the necessary investment priorities and plans within an efficient, resilient, deliverable and sustainable longer-term business plan envelope. The HRA budget is focused on tenant safety and where possible, opportunities have been taken to generate HRA savings. The SHDF projects do not align with the focus on tenant safety, but it does preserve a capability that will have a high priority when capital investment is available again in a couple of years. The ongoing Housing Development programme has committed resources that should ideally be used to accelerate the safety investments or address the high-rise block investment

needs. However, the programme is generating significant additional housing supply that is much needed by the residents of Bristol. Moving forward, further consideration of the HRA investment needs is recommended before committing to any large housing development programmes.

74. Although the proposed HRA budget contains the least level of risk compared to the other scenarios, the remaining risks are significant. These risks and the proposed mitigations measures are summarised in Table 11 below.

Table 11. 25/26 HRA Budget Significant Risk Register

Risk Details	Mitigation Measures	Residual Risk
Increasing tenant dissatisfaction: deterioration in the asset condition due to under investment (e.g. no planned kitchen programme or no funding for Ropewalk House) and the potential for not all repair requests being undertaken will likely increase tenant complaints.	• Delivery of an External communication plan explain the impact of the new budget. • Ensure sufficient capability is available to deal with the increased customer complaints. • Ensure Response Repair activities are prioritised consistently, so resources are targeted at the highest priorities.	
Low level of financial resilience: The proposed HRA is balanced, it contains no resilience to absorb the cost from any unforeseen events. The occurrence of another Barton House evacuation type event would require the HRA budget to be revised and safety driven investment reduced. The probability of this type of event occurring is increased with the financial & deliverability constraints preventing investment in Dove Street, St Judes, Vincent Close and Ropewalk.	• Establish an asset disposal programme to deliver the forecasted disposals and provide the opportunity to accelerate the programme if necessary. • Deliver the budgeted asset & fire surveys and establish Asset Strategies for the high-rise blocks, starting with Barton House, St Judes, Vincent Close & Dove Street. This will provide a short and long-term investment plan for these sites that can help mitigate the financial risks. • Further develop the work being undertaken by Delivery to improve the financial forecasting and risk management. • Establish and deliver a programme of works to start addressing the low level of asset planning maturity. This will generate further efficiencies and value for money.	
Failure to deliver the efficiency programme: the required £8.0m revenue efficiency will be challenging to deliver due to their being no previous programme establish. Failure to deliver the programme will lead to safety driven (e.g. must do) investment being reduced due to the lack of financial resilience.	• Asset Strategy to lead the delivery of the efficiency programme through the establishment of an Efficiency Register that is updated monthly with new opportunities and the latest forecasts. Benchmarking, data analysis and expert views will be used to establish funded project to deliver the required revenue reductions. This work needs to start in Jan 25.	
New legislation / government requirements: The introduction of Awaab's law, requirement to accelerate the cladding replacement programme or other government requirement	• Complete a cost and tenant impact assessment to fully understand the implication of the requirement. • Follow the decision pathway to agree how	

Risk Details	Mitigation Measures	Residual Risk
are unlikely to be supported by additional income. This will require the additional requirements to be delivered using the existing income.	the HRA budget will need to change to accommodate the requirement. This will likely lead to existing safety/must do projects being stopped or the new requirement not being delivered.	
Under/Over Resourcing: The proposed HRA Budget does not require a reduction in resource level, and this is to help mitigate the impact of the funding constraints. However, the change in the investment structure will require a change in the resource allocations.	Project Managers are provided with details of the 25/26 budget and asked to prepare resource plans to deliver the required investment. Resource gaps will be filled, where appropriate, with available resources from other programmes.	

75. In addition to the significant risks above, the standard HRA budget risks also exist including interest rate increases, higher delivery inflation, increasing bad debt, greater disrepair, grant funding arrangement, insurance arrangements and supplier failures. These risks are identified in Appendix D, along with the mitigation measures.

76. It is recognised the proposed HRA budget is far from ideal given the associated risks. The factors leading to this situation and both the unaffordability and undeliverability of the 'Do Everything' scenario include:

    a. **External Factors**

        i. Regulatory: The introduction of the Social Housing Regulation Act 2023 and the associated Consumer Standards is estimated to increase costs by £4m/yr in 2025/26. Furthermore, work is going to ensure compliance with the Building Safety Act 2022 where the costs this year are forecast to be £8m and will increase to £15.7m next year. Potential introduction of Awaab's law will increase costs further.

        ii. Tenant Needs: The needs of tenants are increasing through the above regulatory factors and awareness of their rights. Disrepair compensation costs are forecast to be £1.4m in 25/26, up from £0.9m in 24/25. Expenditure on Adaptations has increased by 50% since 20/21 and the outturn this year is forecast to be £5.1m. Unlike Housing Associations and private landlords, BCC is unable to access the Disabled Facilities Grants grant funding. This is another funding commitment to be delivered by the HRA income.

        iii. Financial: Revenue inflation has recently been lower than delivery inflation by approximately 5%. Whilst overall debt is increasing this is not wholly "rent" and there are debts which are affecting this measure which could be mitigated longer term.

    b. **Organisational inefficiencies**

        i. No efficiency programme: BCC Housing has no ongoing efficiency programme, which is typically present with most infrastructure organisations. This capability will help to minimise the impact of ongoing changes.

        ii. Capital HIP Under delivery: Both organisational and planning programme slippages have led to £21m in 25/26 & £11m in 24/25 of capital programme under delivery. This has delayed the benefits from these capital investments and increase revenue costs.

iii. Historic lack of Asset Protection: Relet repair costs have increased by 80% in the last 4 years and BCC's unit costs are typically 30% higher than the industry average. The poor condition of the relet properties is influencing this high unit cost, and this is partly due to low levels of planned capital works and a backlog of tenant audits. Good progress is being made with the tenant audits this year and it is recommended a tenant damage re-charge policy is established.

iv. Low level of asset planning maturity: An external assessment of HRA's asset planning and investment planning capability highlighted a low level of maturity on all aspects ranging from data driven decision making, needs identification, consideration of intervention options, balancing completing needs and monitoring plan delivery. This current position is leading to inefficient investment decision making, reactive resource planning, occurrence of significant reactive failures and poor levels of performance. The Asset Strategy team are developing a roadmap to improve the asset planning maturity.

v. Low Service Charge recovery: Service charge recovery missed its budget target by £2m in 24/25. The Tenancy & Estates Services team have undertaken a significant amount of work to mitigate the re-occurrence of this lost revenue moving forward.

vi. HR policies: The increasing workloads and need for change have seen the expenditure on contractors increase and staff costs reduce. The staff costs in 24/25 are forecast to be £32m against a budget of £34m. Agency staff costs have exceeded the budget of £0.5m by £1.6m.

c. Asset inefficiencies

i. Aging Asset Base: Figure 11 below shows 69% of the HRA properties were constructed before 1964, which indicates a high proportion of assets are approaching the end of their lives based on a 60-to-80-year lifespan. Older properties require more frequent and costly repairs, maintenance, and upgrades to meet safety and living standards.

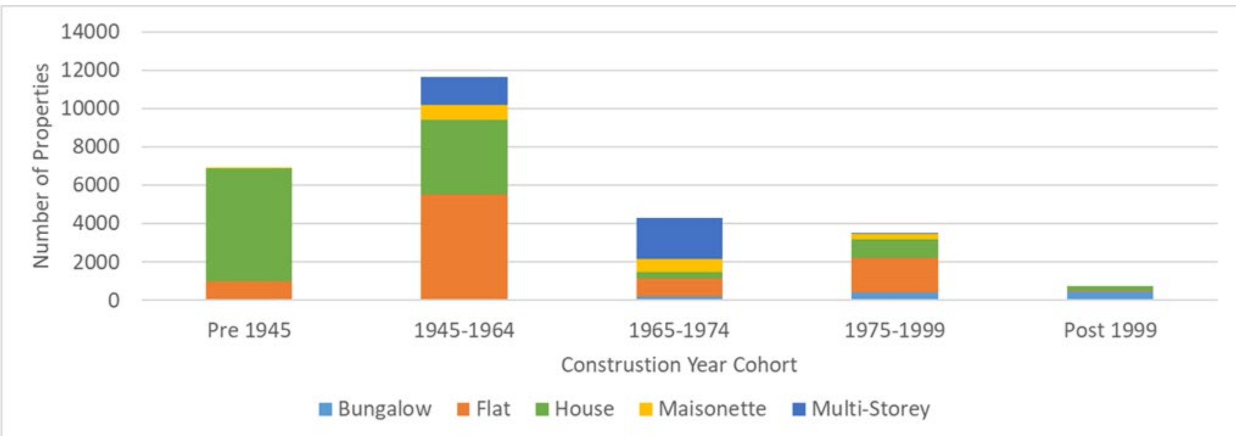


Figure 6. Housing and Housing Type construction year profile.

ii. Investment Backlog: Although the ongoing stock condition surveys will confirm the remaining life of assets, the existing asset data in Figure 12 indicate a 5% backlog of renewals. The legitimacy of this backlog is being confirmed, but any backlog will increase the revenue costs.

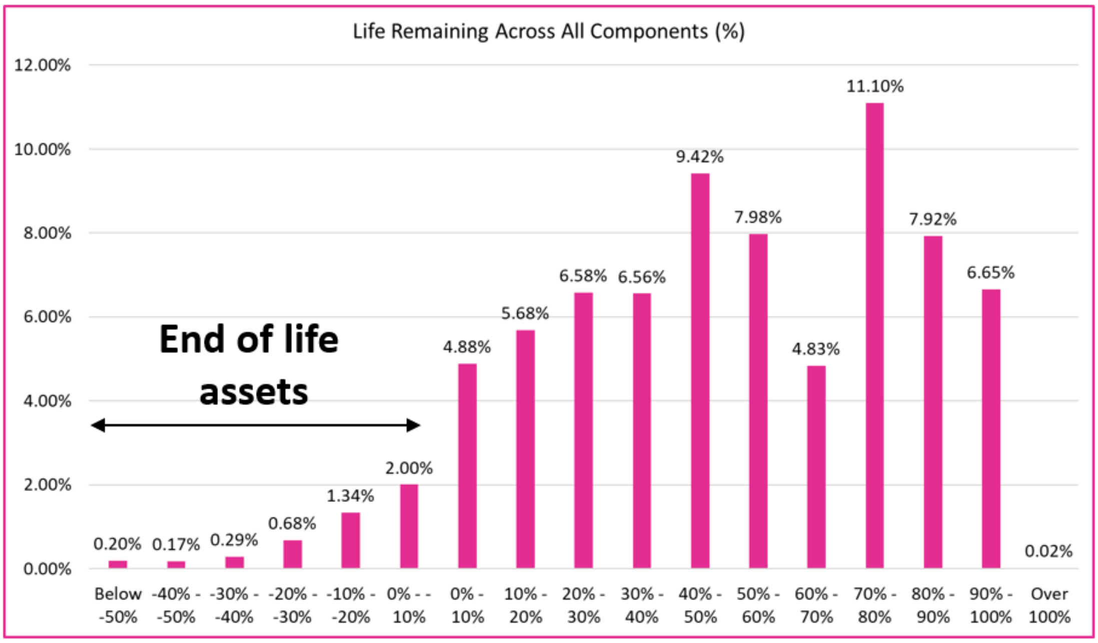


Figure 7. Analysis of asset remaining lives indicates a 5% backlog in asset replacement.

iii. Limited Asset Data: An asset base approaching the end of its life and backlogs in asset replacement, combined with a lack of asset data and a low planning maturity capability will lead to a significant capital investment requirement if the necessary level of services is to be delivered.

Stress Testing

77. Taking account of the sensitivities and risks identified above and in Appendix D, a number of stress tests have been undertaken on the Business Plan, the results of which are summarised below:-

Table 12. Stress Test Results

	Reserves		Borrowings		ICR	
	Breach	**Year**	**Breach**	**Year**	**Breach**	**Year**
Base Plan	N		N		N	
Rent at CPI + 1% 5 years Only	N		N		N	
CPI 1% above B.O.E. Target for 5 years	N		N		N	
Interest Costs 1% Higher	N		N		Y	26/27
R&M Inflation 5% Higher	Y	27/28 - 53/54	N		Y	25/26 - 53-54
Development Costs Increase 5%	N		N		Y	26/27
50% Efficiencies Achieved	N		N		Y	25/26 - 28/29
House Prices Reduce by 25%	N		N		Y	26/27
Major Incident	N		N		Y	25/26 - 26/27
Bad Debt 10% Higher	N		N		Y	26/27
Cumulative	Y	25/26 - 53-54	N		Y	25/26 - 53-54

78. Whilst the plan appears to have a reasonable degree of robustness, there are scenarios that would lead to significant issues and non-compliance with covenants, particularly around

inflationary pressures within the construction industry. With an increase in repairs and maintenance inflation of 5% above current budgeted levels, the plan would be non-compliant against reserves within 3 years, and the HRA would expend all of its reserves within 11 years.

79. In addition to this, there are a number of scenarios whereby, although there would be the borrowing headroom available to draw down against, additional borrowings would be deemed unaffordable as the revenue impact would result in a deterioration of the Interest Cover Ratio below the minimum permitted levels. In these instances, either significant additional revenue savings would need to be found, or capital spend would need to be reduced to a level which does not require additional borrowings to fund the spend.

Monitoring

80. The delivery of the proposed budget will be monitored by Finance, Asset Strategy & Delivery. Although the monitoring processes are improving, it is recognised further work is required to define a plan monitoring approach around key governance gateways. This is in place for the Housing Development programme and needs to extend to all projects. Furthermore, a timetable is required to review cost, outputs and benefits of individual projects rolled up into plan elements.