

London Borough of Croydon Council

Housing Revenue Account Business Plan 2025/26 for 2026/27 Report and Commentary

January 2026

PREPARED FOR

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1. Introduction

1.1 Background

The London Borough of Croydon Council has retained Savills Affordable Housing Consultancy to support officers in the production of the annual Housing Revenue Account (HRA) Business Plan.

This report summarises the business plan outputs in preparation for the 2026/27 budget year and sets out the financial capacity and capability of the HRA to deliver on the Council's objectives in respect of the delivery of landlord services, stock investment, regeneration and new supply.

Savills have worked with officers to update the previous iteration of the HRA business plan, produced commencing financial year 2024/25.

In developing the plan and preparing this report, we have taken account of key economic and inflationary drivers, both national and local, as well a number of policy and related changes at a national level, introduced as a result of, and alongside, the Spending Review in June 2025, subsequent housing policy related consultations during the summer of 2025 and the Autumn Budget in November 2025.

In summary these include:

- Increased capital investment costs in the existing stock due to high levels of inflation, updated stock condition data and revised investment assumptions
- Revised operating costs based upon a commitment to reduce revenue repair costs from 2026/27 following a period of higher spending.
- Increased development costs in respect of regeneration and acquisition due to inflationary and market driven pressures.
- Continued high levels of interest rates available from the PWLB, albeit with discounts currently applied for HRA borrowing.
- Potential for continuing inflationary pressures on current operating costs which could outweigh income growth in the short-term.
- Government consultations on changes to the Decent Homes Standard and the introduction of a Minimum Energy Efficiency Standard (MEES), both of which inform business planning subject to confirmation by government, expected next year.
- A government consultation on the rate and pace at which rent convergence may be reintroduced, with the outcome now anticipated in January 2026.
- Changes to the Right to Buy (RTB), following an extensive government consultation in late 2024, the outcome of which is to restrict access to the RTB whilst also providing a greater degree of flexibility for the reinvestment of RTB receipts, including some measures which are subject to primary legislation yet to be introduced.

At this stage, the plan is based on 2025/26 forecast expenditure and income, used to drive future years income and expenditure assumptions, with known changes identified as part of the 2026/27 budget process, which is still ongoing. The plan is therefore subject to further change for in-year variations and budgetary amendments, if these arise, as the business plan goes through the formal approval process.

1.2 Approach

This report sets out our findings as follows:

1. The outputs from the latest HRA business plan model in the light of the latest market conditions, national policy changes, local policy initiatives and other factors (as set out above).
2. Outputs from financial modelling and sensitivity testing (where appropriate) to establish alternative delivery scenarios for the business plan.
3. The impact on the metrics and indicators which can form the basis of future investment management and planning for the HRA.

2. Business plan model - Baseline

2.1 Introduction

The latest version of the HRA Business Plan financial model, the “baseline” plan, has been developed from information provided by officers, based upon the forecast outturn position for the 2025/26 financial year, which has been used to inform the 2026/27 baseline position, alongside known changes identified as part of the 2026/27 budget process, with the baseline plan model providing the basis for this report.

The model has been developed via a series of meetings with officers to agree the methodology and assumptions.

2.2 Overview of methodology and assumptions

Overall

The plan is based on overarching principles as set out below.

- 30-year projections launched from 2025/26, based on the forecasts for 2025/26, inflated to create the baseline position for 2026/27, with known changes from 2026/27 also incorporated.
- Core inflation (subject to scenario testing) projected at:
 - 2.7% for 2026/27
 - 2.3% for 2027/28
 - 2.0% from 2028/29 onwards.
- Rents increasing at:
 - Rent increases of CPI plus 1.0% for 10 years, in line with the current rent settlement, before reverting to CPI only from April 2036
 - Homes relet at formula rent including the rent flexibility, with a 3% annual turnover rate assumed.
- Voids levels assumed to be 2%, and bad debts 1%, both on an ongoing basis.
- Garage and shops rent inflation assumed to be in line with standard CPI inflation.
- Service charge income from tenants increased in line with dwelling rent assumptions.
- Provision for depreciation increasing at CPI throughout.
- Transformation funding cash limited on an ongoing basis, and reduced and subsequently removed in future years.
- Repairs contract costs inflated by CPI in September 2025 for 2026/27, then core CPI from 2027/28.
- Capital maintenance of the existing tenanted stock (subject to Right to Buy sales) is initially modelled at a total of £918m (at today's prices before any adjustment) over 30 years from 2025/26; this provides for the existing capital programme for years 1 to 6, before moving to the October 2025 Stock Condition Survey investment data from year 7, with the difference in delivery from years 1 to 6 then phased evenly across the following 5 years.
- The overall stock investment profile equates to £68,750 per property, which is in line with national average benchmarks based upon LGA research undertaken in 2024 (which were in the region of £62,000 nationally), but with these averages rising as more condition surveys are completed, to around £69,000 in 2025/26 and up to £90,000 in London. An investment need of £68,750 per property is therefore much lower than benchmarks for a London Borough.
- Inclusion of the addition of 225 homes as part of the Regina Road regeneration project and the acquisition of 285 on the open market over the first 7 years.
- Interest calculations based upon a portfolio of loans totalling £364.5m attributed to the HRA, with an opening HRA Capital Financing Requirement (CFR) of £377.1m, with interest charged on the internal borrowing of £12.6m at a rate of at 4.5%.

- New borrowing assumed at a rate of 4.5% on an ongoing basis.
- Interest received on HRA cash balances at 4.00% in 2025/26, 3.50% in 2026/27 and 3.25% from 2027/28 ongoing.

The overall methodology within the plan is founded on the following key approaches:

- Borrowing for acquisitions and investment in the existing stock is approximately £482.5m over the life of the plan, with this currently assumed to be solely in respect of investment in the existing housing stock from years 8 to 21.
- No provision is set aside to repay debt during the life of the business plan, with re-financing of loans assumed as they mature.

We have set out below further details in respect of some of the key inputs and assumptions.

Rents

Rents follow current guidance with relets to new tenancies at the relevant formula rent, including the discretionary rent flexibility (rather than the outgoing rent).

Void levels are incorporated into the financial model at 2% from 2025/26 onwards, and an annual contribution to the bad debt provision of 1% has been modelled, based upon anticipated performance.

Rents are assumed to increase annually by CPI plus 1.0% (based upon the preceding September's CPI rate) from April 2026 for 10 years, in line with the current rent settlement announced in June 2025. The rate of inflation as measured by CPI in September 2025 was 3.8%, and this assumption has been incorporated into the baseline business plan.

As part of the Spending Review in June 2025, the government confirmed its intention to reintroduce rent convergence, and in July 2025, issued a consultation paper on the rate and pace of this. The consultation sought views on closing the gap between actual and formula rents each year by either £1 or £2 per week, on top of the standard CPI plus 1.0% increases, and on whether it should be implemented from April 2026 and should span the full 10 years of the current rent settlement period. The outcome of the consultation is now expected later in January 2026, following confirmation of a delay by government in the Autumn Budget in November 2025.

The reintroduction of rent convergence has therefore been modelled as a sensitivity at this stage, pending the outcome of the consultation, to demonstrate the positive impact this could have on the availability of resources for investment in both existing and new homes.

The reintroduction of rent convergence, subject to being approved for implementation at a local level, will positively impact the HRA business plan, whilst any national decision not to maintain rent increases at a minimum of CPI plus 1.0% for the next 10 years would negatively impact the plan.

Right to Buy sales volumes

The level of sales is modelled at 60 in 2025/26, 2026/27 and 2027/28, whilst the Council works its way through the influx of applications received in the first three weeks of November 2024 following the government announcement of a return to the pre-2012 maximum discount levels from 21 November 2024.

The discount changes have reduced the maximum discount from £102,400 to £16,000, and as a result the estimated number of future sales has been reduced, with 10 sales per annum forecast from 2028/29, reducing by 2 sales per annum every 5 years 2031/32.

Estimated sales over the next 30 years account for a stock loss of 2.3% over the plan period (excluding any disposal or regeneration schemes). We have made adjustments to rents, repair costs and future capital

investment assumptions to reflect the stock losses incorporated, but not to management costs, as the numbers are minimal, particularly in the long-term.

Capital works to existing properties

The model reflects the proposed capital programme for the first 6 years, moving to Stock Condition Survey data from the Councils' Asset Management System from year 7, with the difference between the two in years 1 to 6 adjusted across the following 5 years.

The stock investment data currently used to inform the baseline plan is summarised in the table below, but the timing is adjusted in the financial model to reflect the capital programme for the first 6 years.

Table 2.1 – Stock Investment Requirements from Asset Management System (base year prices)

	Backlog and Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 15	Years 16 to 20	Years 21 to 25	Years 26 to 30	Total
Cyclical Decorations	£5,605,000	£3,765,500	£5,593,000	£5,089,000	£1,195,500	£5,169,500	£4,258,500	£30,676,000
Decent Homes	£48,801,594	£36,388,728	£66,202,817	£67,136,632	£92,551,373	£52,896,442	£39,649,808	£403,627,393
Mechanical and electrical	£66,378,297	£17,312,489	£28,138,053	£21,028,183	£22,676,574	£10,876,354	£12,167,336	£178,577,287
	£120,784,891	£57,466,716	£99,933,870	£93,253,815	£116,423,447	£68,942,296	£56,075,644	£612,880,679

In addition to the above Stock Condition Survey investment requirements, the business plan also includes:

- Building safety works
- Special projects
- Capitalised staff costs
- Repairs referral works
- Pest control costs
- Feasibility studies (assuming the ability to capitalise)
- NEC phase 2 costs
- Extensions
- Disabled adaptations
- Estate improvements
- Energy performance and Stock Condition Surveys
- Consultant fees
- Prelims, overheads and contractor profit.

The total level of investment anticipated over 30 years has increased by £98m from data used for the previous iteration of the plan, equivalent to a 11% increase.

The increase is as a result of inflation, improved stock condition data highlighting increased investment needs, and also the inclusion of more long-term investment outside of that covered by the core survey data.

The view that a more appropriate level of resource is incorporated into the baseline plan than in previous years, is borne out by the fact that the level of investment per property over 30 years is now £68,750, compared to national sector benchmarks that are currently in the region of £69,000 per property. However, these are significantly higher in respect of London Boroughs, highlighting that these assumptions should still be kept under review as improved data is available.

Regeneration and Acquisition assumptions

The plan provides resources and external funding assumptions for the regeneration of the Regina Road site, which will deliver an additional 225 homes into the HRA upon completion by year 7 of the plan. The cost for the scheme has increased significantly since the project was first incorporated into the HRA business plan,

with inflation, materials and labour shortages and scheme design, all having an impact. Rents for the new rented properties are modelled at Affordable Rent levels.

The business plan also provides for the proposed acquisition of 285 homes on the open market over the first 3 years of the plan, predominantly funded using Right to Buy receipts. These homes are assumed to be let at formula social rents.

Provision for repair and capital maintenance costs for new build homes is currently made within the plan, but not for management costs, recognising that the new homes being delivered replace homes either sold under the Right to Buy or being demolished and replaced as part of the Regina Road project.

Interest rates

The Council operates a two-pool approach to managing debt, with a portfolio of loans totalling £364.5m attributed directly to the HRA, with a HRA Capital Financing Requirement of £377.1m leaving notional internal borrowing of £12.6m, with interest charged to the HRA based upon the rate of 4.5%. New borrowing is also assumed to be at the rate of 4.5% which assumes short-term borrowing rates and the ability to re-finance at similar levels longer-term.

The plan does not currently assume any repayment of debt but instead assumes that any revenue surpluses would be available to be invested into the delivery of enhanced services, improvement works to the existing stock or new homes in the HRA.

Internal lending is assumed at an interest rate of 4.00% in 2025/26, 3.50% in 2026/27 and 3.25% from 2027/28 onwards in line with advice from the Council's treasury management function.

2.3 HRA Business Plan Projections - Baseline

As set out above, we have modelled the capacity of the business plan not only to meet existing and future service costs, but also to invest in existing homes to ensure stock is maintained at the Decent Homes Standard and to deliver new homes, whilst also demonstrating overall financial sustainability. In doing so, a starting minimum balance for the HRA of £9.5m has been applied.

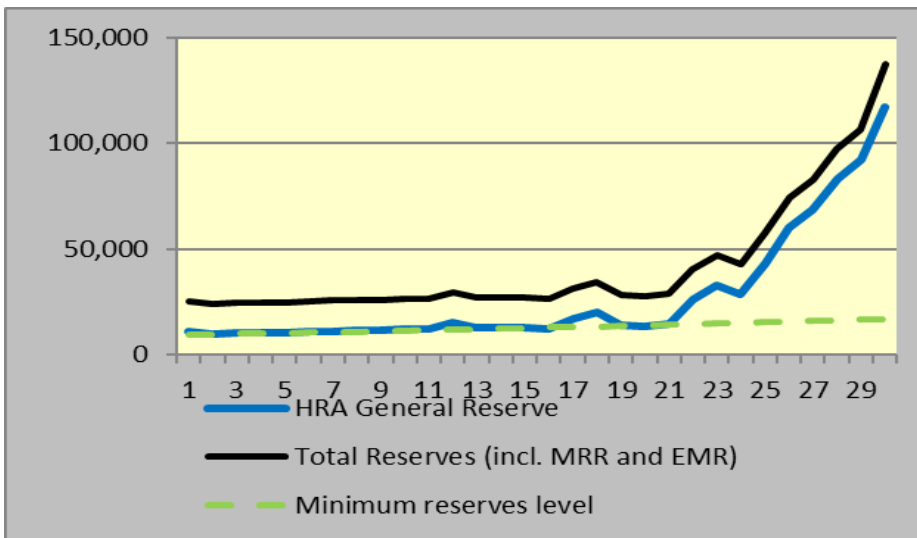
Various methodologies can be applied for arriving at a minimum reserve balance:

1. Equivalent to a period of gross expenditure. In the case of Croydon £9.5 million is equivalent to 1.29 months of expenditure; elsewhere we have seen 1.7 months set as a basis.
2. A percentage of turnover is also adopted at other LA's, with authorities we have worked with having set the target limit at minimum 10% of turnover, which if adopted by Croydon, would be £10.3m, in place of the current £9.5m.
3. Finally, a straightforward allowance per unit could be used, which equates to £712 per unit whereas values closer to £900 per unit are modelled elsewhere.

Having considered the above benchmarks, the starting level of minimum reserves of £9.5m included in the business plan is marginally low against all metrics, and as a result, the Council may wish to consider reviewing the reserves policy in future years.

The chart below shows the projection for HRA reserves, maintaining reserves at, or marginally above the minimum level, with the starting level of £9.5m inflated annually in line with CPI, with all available remaining resource in the HRA utilised to finance the capital programme.

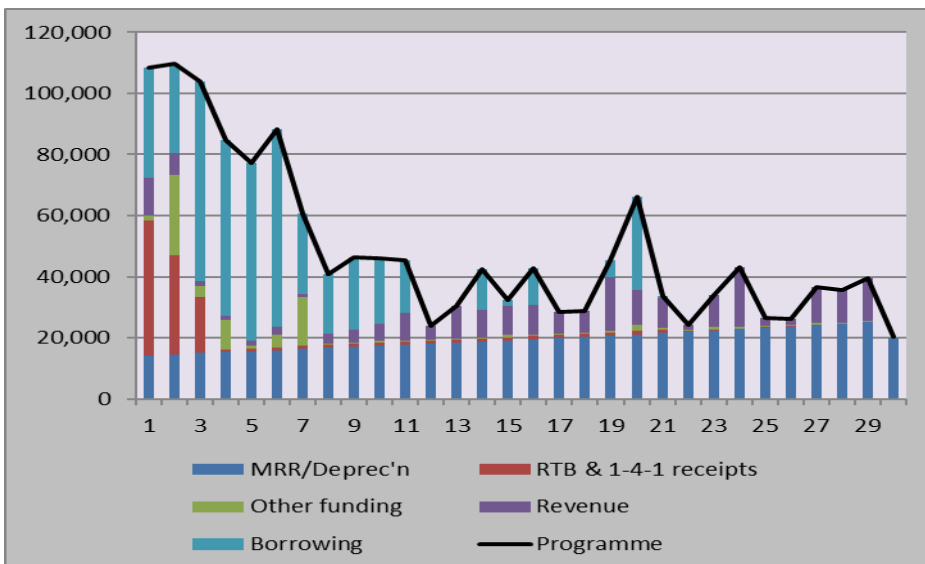
Chart 2.1 – Projected HRA balances (£'000s)



These projections demonstrate that the HRA reserves are able to be maintained at, or above the minimum level set throughout the life of the plan, with reserves beginning to build significantly from year 22, the point from which annual investment needs in the existing stock reduce. By year 30, reserves of £117 million are projected, providing resource to allow additional expenditure on services, direct investment in the existing stock and/or new homes, resource to support borrowing for additional investment, or alternatively to allow repayment of some of the HRA debt.

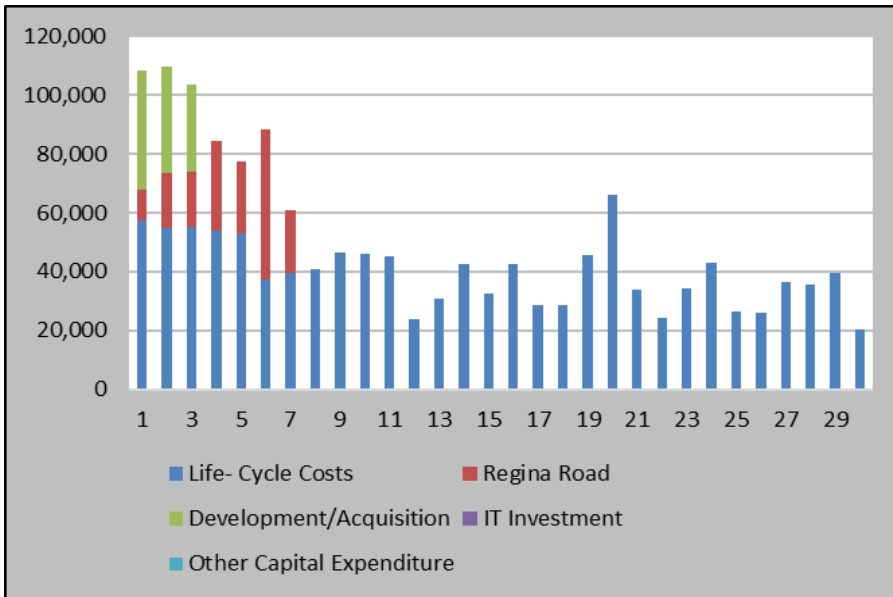
The model maximises available revenue contributions to capital throughout the 30 years, whilst maintaining balances within the HRA revenue reserve at, or above, the agreed level.

Chart 2.2 – Projected capital expenditure and financing (£'000s)



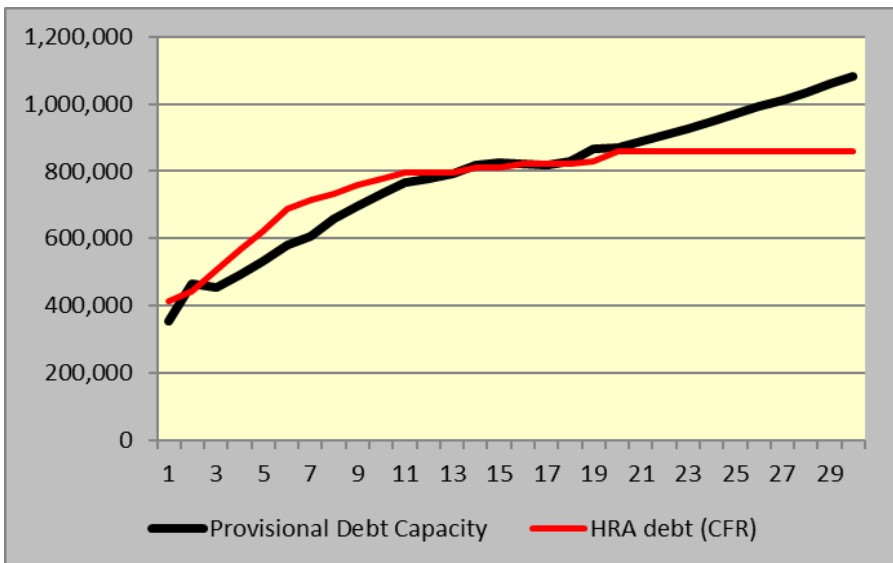
Capital expenditure is fully financed throughout the 30 years as demonstrated by the horizontal black line, with borrowing required until year 21, in the early years whilst the Regina Road scheme is completed, but in later years in order to finance the investment requirement in the existing stock.

Chart 2.3 – Projected Capital Expenditure Analysis (£'000s)



In order to assist in financing the levels of capital expenditure demonstrated above (charts 2.2 and 2.3) the projected debt (HRA CFR) is demonstrated in the graph below.

Chart 2.4 – Projected debt profile (HRA CFR) and Notional debt capacity “golden rule” (£'000s)



Borrowing is projected to increase across the first 21 years of the plan, to a total of £860m by 2045/46, after which borrowing is no longer required.

The notional debt capacity in the chart above is measured on the basis of the Interest Cover Ratio¹ (ICR) which sets out one basis for setting a prudent limit on borrowing based upon the underlying net income generated

¹ We draw ICR at Net Operating Income (i.e. turnover less management, maintenance and depreciation); this reflects the resource accounting nature of the HRA and flexibility with which to utilise surplus revenue below that level

within the plan. Borrowing sits above this measure of debt capacity, as measured by an interest cover ratio of 1.25, until year 14 of the plan (and again marginally in year 17), with no additional borrowing capacity until after this point.

This business plan carries significant risk in terms of the level of borrowing required, particularly as the majority of the borrowing is in respect of regenerating existing housing or investing in the existing housing stock, neither of which will bring 'new' revenue into the business. The ICR is not forecast to fall below 1.0 at any point, ensuring that a balanced revenue budget can be set without the need to call upon reserves, but there is little or no capacity to respond to unforeseen events in the medium-term, or to invest elsewhere if the need arises. Maintaining the ICR at above 1.0 has been achieved by re-profiling some of the investment requirements in the existing stock into the years after the completion of the Regina Road scheme. Borrowing can be supported by anticipated available revenue resources but will require very careful risk management and regular review to ensure that costs are controlled and new homes are delivered on time.

The ICR is calculated as operating surplus divided by interest costs, and represents the cover that the HRA has against its interest cost liabilities in any year after taking into account transfers from the HRA to the Major Repairs Reserve (MRR) for depreciation, which in turn is then used to finance the capital programme.

This approach to ICR recognises that the Council has flexibility in the way it uses any HRA net income after depreciation – it can either use this surplus revenue to top up depreciation to the MRR, use surplus revenue as revenue contributions to the capital programme (RCCO), use surplus revenue to borrow against, or use surplus revenue to pay down debt.

The ICR is set to a "golden rule" 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. For housing associations, the usual definition of operating surplus is EBITDA-MRI (Earnings before Interest, Tax, Depreciation and Amortisation – Major Repairs Included) – which is a measure that takes into account all of the costs associated with future stock maintenance. For the HRA, there is a split between future costs which are charged to revenue and future costs which are charged to capital hence it is appropriate to draw the "net income" level after depreciation.

There are financial pressures within the housing association sector that are parallel to those affecting local authorities and Croydon Council. The average ICR for the HA sector in 2024/25 was 0.91 although this captures all capital as well as revenue expenditure; typical lending covenants vary between 1.10 and 1.50 depending on the size and nature of the HA, with 1.25 being a typical "golden rule" expectation. Until the last two years, the ratio has not dropped to below 1 since 2007/08 and highlights that housing associations have had to accept that interest cover will dip below minimum levels in the short-medium term (effectively requiring a "carve out" from their funder covenants in the short-term). In other words, they are having to use some net income to borrow to invest in their stock applying a degree of flexibility in the same way that councils are able to do within the HRA.

For the HRA, operating surplus is best defined as:

- Turnover (dwelling rents, other rents, service charges, contributions)
less
- Operating Costs (general management, special management, other management, repairs & maintenance, depreciation transfers).

The above definition of ICR works in the HRA context as it determines the revenue surplus before interest, appropriations, and other "below the line" adjustments, and already takes into account a significant element of costs relating to major repairs before comparing to debt interest capacity.

The net operating surplus determining the availability of revenues to cover interest payments can also be expressed in %age terms as "operating margin". The operating margin within the baseline plan starts at around 15% and rises to circa 27% over the long-term. Margins in the early years are below benchmarks, when

compared with other local authorities, but improve as new homes are delivered with marginal operating costs assumed for these, as the homes broadly replace those lost through either Right to Buy or site regeneration.

Chart 2.4 shows the provisional debt capacity (prudential borrowing) which is set at the “golden rule” of interest cover ratio (as defined above) at a minimum of 1.25, with no real borrowing headroom available until year 18 of the plan.

A 10-year rent settlement at CPI plus 1.0% in addition to assumed future income streams from net rental income for the programme of acquisitions and regeneration is critical to support the interest payments on the borrowing within the plan.

2.4 Comparison to December 2024 projections

The current baseline plan differs significantly to the baseline plan from December 2024, with significant additional investment assumed in the existing housing stock in the current iteration of the plan. Both plans incorporate the longer-term, 10-year rent settlement, but with updated Stock Condition Survey data and investment requirement assumptions materially increasing the forecast expenditure requirements.

The charts below compare revenue reserves and debt projections for this year’s baseline plan against the approved plan from last year.

Chart 2.6– Models comparison: December 2024 and January 2026 HRA reserves

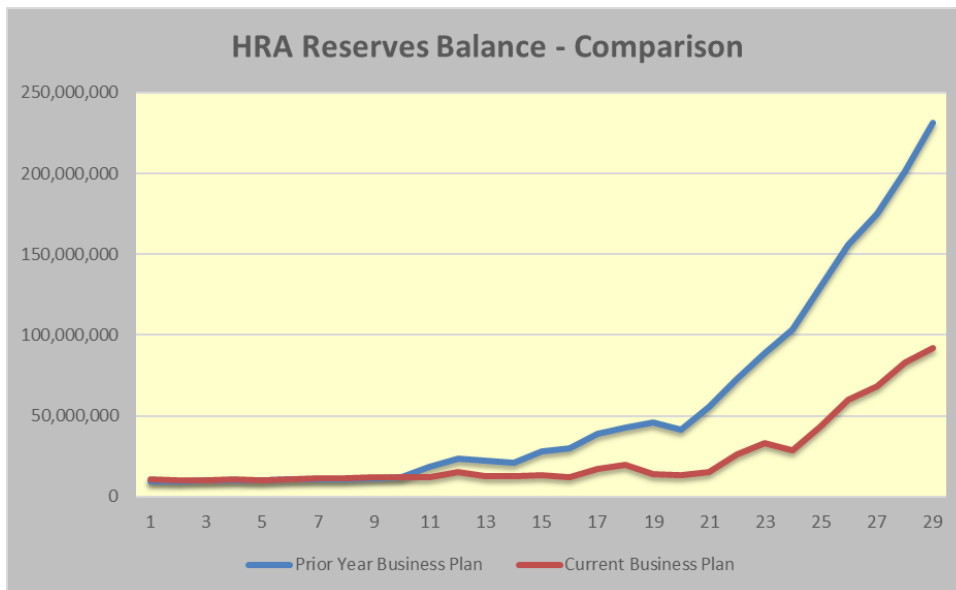
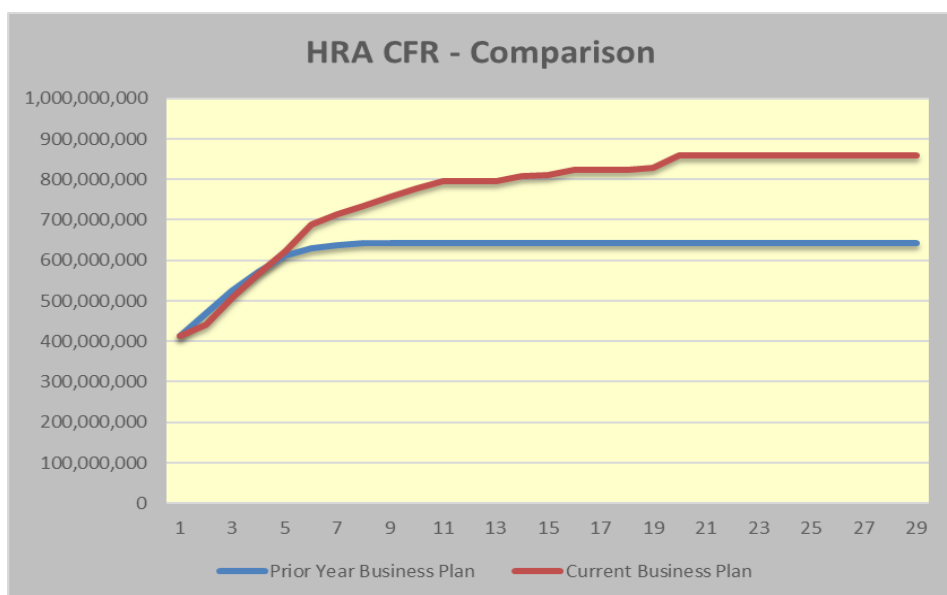


Chart 2.7– Models comparison: December 2024 and January 2026 HRA CFR (Debt) balances



In the previous business plan, debt increased until year 9 of the plan, to a level of £643m and then remained stable throughout the rest of the plan. In the current plan, debt increases until year 21, reaching a total of £860m, but with borrowing that sits outside the level that is indicated can be supported by the estimated revenue streams within the business plan to an appropriate level of risk management for a longer period than before.

It should be noted that if the government allows rent convergence, and the Council implements it, this would reduce the call on borrowing in the early part of the plan, and enhance the risk mitigations that the Council puts in place.

Stock investment comparison

The key variances in stock investment and development (acquisition or regeneration) are shown in the tables below.

The medium-term expenditure on existing stock is forecast to increase significantly over this period (£119.3m), due to an increase in investment in the stock as identified through update Stock Condition Survey data, coupled with the inclusion of investment outside of the survey data over the same period, including adaptations, extensions, estate-based works, fees and contractor prelims, overheads and profit. Acquisition and regeneration expenditure has also increased, with an increase from £227.4m to £281.7m recognising increased costs for both Regina Road and open market acquisitions.

Table 2.2 – Investment into the existing stock

Stock Investment Comparison £'000														
	1	2	3	4	5	6	7	8	9	10	Total			
	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31	2031.32	2032.33	2033.34	2034.35				
Current Business Plan	57,395	54,827	55,213	53,769	52,956	37,386	39,680	40,794	46,356	46,028	484,404			
Prior Year Business Plan	55,048	37,077	38,909	43,423	35,702	40,540	28,119	29,969	27,109	29,166	365,060			



Table 2.3 – New build and acquisition expenditure

Acquisition and Regeneration Expenditure £'000													
	1	2	3	4	5	6	7	8	9	10	Total		
	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31	2031.32	2032.33	2033.34	2034.35			
Current Business Plan	51,134	54,860	48,527	30,814	24,292	50,995	21,060	0	0	0	281,682		
Prior Year Business Plan	52,353	63,429	48,457	31,574	31,574	0	0	0	0	0	227,387		

Summary

The plan shows a position that is fundable in terms of HRA revenue projections, with reserves maintained at, or above, minimum levels until year 21, after which they begin to increase. The plan is not, however, without risk. The level of debt to be taken on has increased significantly since the last iteration of the plan as a result of the additional investment identified above and sits outside levels that would be considered “prudent”, for the first 13 years, and then again in year 17. The impact on the “golden rules” for setting prudential limits is affected in terms of:

- Forecast levels of debt (HRA CFR) increase until year 21 predominantly to support the planned investment in Regina Road and in the investment required in the existing housing stock and housing estates, with investment requirements after this at a level which the HRA can support directly through depreciation charges and available revenue contributions to capital.
- There is little, or no, resource available for debt repayment, until the later stages of the plan.
- Forecast borrowing is outside the interest cover “golden rule” of 1.25 ultimately until year 18 (year 9 in the previous business plan), with an ICR of 1.02 in 2025/26, increasing marginally from 2026/27, but falling to as low as 1.02 in year 6, before rising to 1.58 by year 30, indicating a fundable position, but with significant risk and no additional investment capacity for some time.
- The borrowing carries a significant degree of risk, which will need to be carefully managed and mitigated wherever possible.

3. Sensitivity and Stress Testing

Given the ongoing economic and policy uncertainty in respect of cost inflation, interest rates, rent convergence and the impact of proposed changes to Decent Homes Standard alongside the introduction of a Minimum Energy Efficiency Standard, we have specifically reviewed some sensitivities in respect of the impact of these.

The sensitivities considered are set out in the sections below, with a summary in the set of graphs at the end of the section. These measure the impact of each sensitivity against the closing level of debt, the closing level of HRA reserves and the closing interest cover ratio at the end of the plan.

3.1 Interest Rate Risk

Due to the increased levels of borrowing in the business plan in order to facilitate both regeneration and the higher level of investment required in the existing housing stock, the level of interest rates will have an impact on the plan. Any requirement for the Council to refinance existing debt will also impact the plan.

The interest rates supplied for use within the plan are based on the Council's view of the treasury sector, with borrowing rates of 4.50% adopted from 2025/26 on an ongoing basis, but the markets, and particularly Government gilts, are difficult to predict.

At the time of writing, PWLB maturity loan rates vary from 4.64% to 6.12% depending upon the term of the loan. The current reduced HRA rate at 60 basis points below the standard PWLB lending rates is applicable until at least March 2026, with announcements about any further extension now anticipated in January 2026. Outside of this, the PWLB certainty rate of 20 basis points below the standard rate will still apply. Therefore the 4.50% rate assumed for borrowing may not be unrealistic, if loans of short to medium-term length are assumed, supporting the optimistic view that rates are anticipated to reduce in the coming months and years.

By way of example, we have demonstrated the impact of:

- Increasing borrowing rates for all new borrowing by 1.00% from 2026/27 onwards
- Reducing borrowing rates for all new borrowing by 1.00% from 2026/27 onwards.

The rates modelled for 2025/26 remain unchanged in both scenarios.

3.2 Cost Inflation Risk

Within the plan, we have used inflation indicators as agreed with Croydon, which assume the Bank of England's core target for inflation of 2% is achieved by 2028/29. Considering both the Bank of England (BoE) and Office of Budget Responsibility (OBR) forecasts for the next 3 years for CPI, this assumption is considered wholly reasonable and is in line with the assumptions being made by a number of other councils.

According to the Bank of England's Monetary Policy Report of August 2025 inflation was expected to be:

- 3.8% Quarter 3 2025
- 2.7% Quarter 3 2026
- 2.0% Quarter 3 2027

The Office of Budget Responsibility Economic and Fiscal Outlook of November 2025 also supports the view that inflation will return to 2% during 2027, supporting the assumption that this should be the rates assumed for budgets from 2028/29.

To test the impact of varying inflation on the plan we have modelled two scenarios in respect of cost inflation and non-rental income inflation only, as detailed below:

Higher general cost and non-rental inflation (CPI)

In this scenario we have modelled inflation for 2027/28 and 2028/29 at 3%, before returning to 2% from 2029/30.

Lower general cost and non-rental inflation (CPI)

In this scenario we have modelled inflation falling to below the government's long-term target, with 1% assumed for both 2027/28 and 2028/29, before returning to 2% from 2029/30.

3.3 Future Rent Policy (possible risks and “upside”)

We have considered the impacts in both cost and non-rental inflation and interest rates and now have some certainty over base rent increases for the next 10 years but still await confirmation in respect of the reintroduction of rent convergence.

Currently, the baseline position assumes CPI plus 1% for 10 years from April 2026, but we await the outcome of the consultation (now anticipated in January 2026) in respect of both the pace and timing for the reintroduction of rent convergence.

To test the impact on the plan, we have modelled two scenarios as detailed below:

- Rent convergence at £1 per week for 10 years from April 2026
- Rent convergence at £2 per week for 10 years from April 2026

The reintroduction of rent convergence has the potential to make a significant “upside” difference to the resources available in the HRA, allowing councils to consider additional investment to meet repair liabilities and building safety requirements, to meet energy efficiency targets, and to deliver more new homes.

From a downside perspective, we have modelled the impact of early cessation of the 10-year rent settlement, assuming a change in government policy reverts rent increases to CPI only after the first 5 years, recognising that rent policy has been revisited a number of times in the past.

3.4 Include Net Zero Carbon Investment

The baseline financial model assumes some energy investment, with just under £9m invested across the early period to achieve EPC 'C' across the portfolio, but not to meet the full investment required to achieve Net Zero Carbon.

We have modelled an alternative scenario that assumes a higher level of investment, aimed at achieving Net Zero Carbon across the life of the plan, based upon the Net Zero Carbon costs provided as part of the business planning process in 2024.

3.5 Resulting Sensitivity Impact

The graphs below demonstrate the impact of each sensitivity modelled against the interest cover “golden rule” of 1.25 at year 30, the closing debt position at year 30 and the closing HRA reserves position at year 30.

Chart 3.1: Closing ICR modelled against above sensitivities



Chart 3.2: Closing HRA Debt modelled against above sensitivities

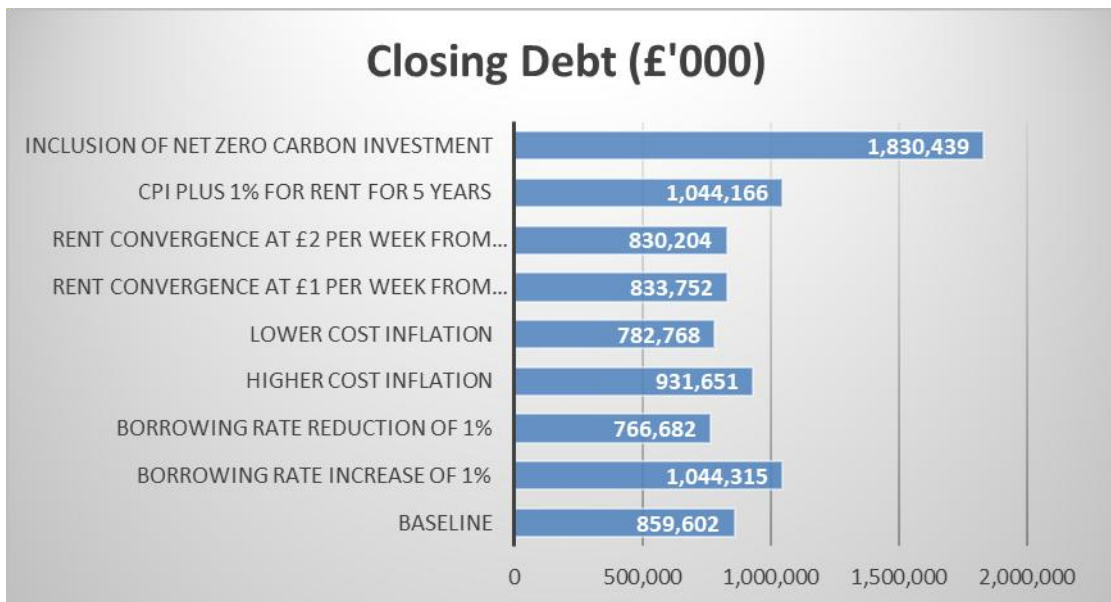
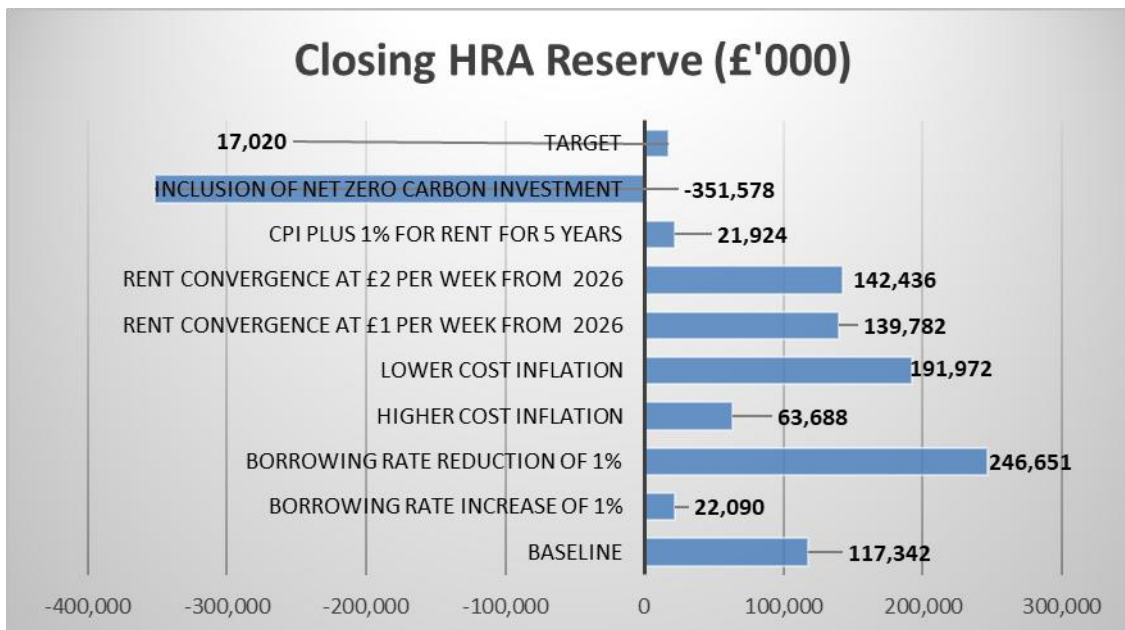


Chart 3.3: Closing HRA Reserves modelled against above sensitivities



As expected, the sensitivities and stress testing exemplified in the charts above highlight that the business plan (and therefore future financial viability of the HRA) is particularly sensitive to future rent setting policy across all elements of the plan, to future movements in interest rates as a result of new borrowing to be undertaken within the plan, and to the level of investment required towards meeting Net Zero Carbon standards.

The reintroduction of rent convergence would deliver additional resources in the short-medium term and these would extend over the life of the plan, with reserves increasing from £117m in year 30 of the baseline business plan to £140m if rent convergence were reintroduced at £1 per week and £142m if it were to be at £2 per week. Amongst other things, this would allow future borrowing to be reduced marginally, moving the plan into a position where an interest cover ratio of 1.25 could be achieved two years earlier than assumed in the baseline plan. The positive impacts of rent convergence would however be focused in the early years of the plan.

It is clear that there is currently insufficient resource, or available borrowing capacity, to consider investment to achieve Net Zero Carbon standards in the existing housing stock, with external funding being required to in any way facilitate this.

None of the scenarios considered have a sufficiently positive impact to reduce borrowing to a level that might be considered “prudent” in risk management terms, as measured by an interest cover ratio of 1.25 or above from the outset. There is little or no additional headroom available in the plan until the later years, to allow increased operational expenditure, to enhance service delivery, to provide additional directly funded investment in the existing stock or new supply, or alternatively to support further borrowing to allow increased capital investment.

The Council will, of course, need to keep the plan under close and regular review to ensure that delivery of services and investment are able to be maintained over the longer-term, particularly as additional borrowing is committed to.

4. Summary

1. The HRA business plan forecast as set out in our modelling for the London Borough of Croydon shows projections for reserve balances, forecast debt (HRA CFR) and future potential borrowing capacity.
2. The baseline version of the financial model demonstrates a plan that is fundable, but not without significant risk, particularly in the early years. There is the ability to maintain a minimum level of HRA reserves throughout, with reserves increasing from year 22 to a projected £117 million by the end of the business plan period. Additional borrowing is required until year 21, with this solely relating to the existing housing stock from year 8 onwards.
3. The baseline plan is constructed on a sound financial basis but given the inherent potential for changes in respect of rent increases, inflation and interest rates, we have run a number of scenarios which could potentially develop over the coming months.
4. This report is therefore very much a position statement (as of December 2025), and we would expect the plan to develop in the coming months. It is important that the Council continue to keep the plan under regular and rigorous review, particularly given impending government announcements (rent convergence, HRA borrowing rates, Decent Homes 2, MEES) and the need to borrow extensively, particularly in the early years.
5. The level of investment in the existing stock is now included at £68,750 per property over 30 years, which is higher than in earlier versions of the business plan, recognising both updated stock condition data and the need to also allow for investment outside of stock condition surveys into the longer-term. The level of investment incorporated into the plan is in line with national benchmark levels, but much lower than benchmarks for housing stock in London; future investment costs should be kept under regular and rigorous review.
6. The Council will need to review the business plan projections once the outcome of the rent convergence consultation is published (now expected in January 2026), with the potential for additional resource to be generated through this mechanism, particularly in the short to medium-term, subject to the Council agreeing to its implementation.
7. The Council will need to borrow extensively to meet both acquisition and regeneration plans and to allow the required investment in the existing housing stock. We have identified how the level of borrowing compares to provisional “golden rules”, with the plan identifying that proposed borrowing would be above levels that are considered “prudent” against standard sector benchmarks for a number of years. This will require careful management to ensure that additional risks are identified and mitigated where possible.
8. Financing and interest costs are able to be met from existing reserves and revenues generated within the plan throughout, with HRA reserves maintained at, or above, the desired minimum level. However, using the “golden rule”, with an interest cover ratio of 1.25 of net operating income after depreciation, the baseline plan demonstrates that there is no real additional investment capacity until year 18 of the plan, with the ICR falling to as low as 1.02 in year 6, demonstrating that operating surpluses are only just sufficient to meet interest costs in the year, leaving little or no ‘cushion’ should the Council experience an unexpected increase in costs or loss of income. This metric is only one way to consider the risk associated with borrowing in the HRA, and the Council will continue to need to carefully manage the borrowing proposed in future years, taking account of any changes in internal or external factors that may introduce additional risk.

9. The business plan reflects operating margins which are below benchmark at the outset, but move to being within benchmark levels by year 5 of the plan, as rents increase at a faster pace than costs and new homes are assumed to be delivered with the addition of marginal operating costs, recognising that these homes replace those either demolished as part of regeneration or sold under the Right to Buy. The operating margin increases from 14.6% at the outset to 27.4% by the end of the plan period.
10. The sensitivities modelled show that a reduction in interest rates or positive changes in rent increases would reduce financial risks and add to long-term capacity. Conversely, an increase in interest rates, or constrained rent increases will add pressure to use up that capacity. It should be noted, however, that no upside sensitivity modelled causes the business plan to move to a position where the proposed level of borrowing would be within what might be considered “prudent” in risk management terms from the outset, reinforcing the view that careful risk management will be required over the medium-term.

Savills

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Contact

Julia Hovells
Associate Director

07975 710658
julia.hovells@savills.com

Steve Partridge
Head of Housing Consultancy

07968 354948
steve.partridge@savills.com

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