

Medway Council

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

January 2026

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1. Introduction

1.1 Background

Medway 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 and new supply.

Savills have worked with officers to update the annual business plan commencing financial year 2025/26, which builds upon the previous version of the plan, 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:

- Revised capital investment costs in the existing stock, to include updated Stock Condition Survey data and a reduced cost assumed to install heat pumps in place of boilers, based upon the latest estimates available to the Council.
- Increased development costs in respect of new build and acquisition due to inflationary and market driven pressures.
- Continued high levels of interest rates for loans available from the PWLB, albeit with discounts currently applied for HRA borrowing until March 2026 with the announcement of any extension anticipated in advance of this date, and short-term borrowing currently being assumed.
- Potential for continuing inflationary pressures in 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 the forecast outturn for 2025/26 and the proposed budgets for 2026/27, but with the 2026/27 budget process 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:

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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 decisions for the HRA.

2. Business plan model - Baseline

2.1 Introduction

The current HRA Business Plan financial model, the 'baseline' plan, has been developed on the Savills platform, from information provided by officers, based upon the forecast outturn position for the 2025/26 financial year, and the proposed budgets for 2026/27, with the baseline plan model providing the basis for this report.

The model has been developed following a series of workshops, meetings and exchanges of information with officers to agree the methodology and assumptions.

The baseline model is very much seen as a "growth plan", with available investment capacity currently committed to both increasing the size of the property portfolio and to delivering improvements in the existing housing stock.

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 upon the forecast outturn position for 2025/26 and the proposed budgets for 2026/27, inflated for future years.
- Core inflation (subject to scenario testing) projected at:
 - 2.2% 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, with an assumed rent increase of 4.8% in April 2026
 - Homes relet at formula rent, with a 2.5% annual turnover rate assumed.
- Voids levels assumed to be 2.88% from 2026/27 onwards, and bad debts of 0.14%, both on an ongoing basis.
- Garage rents are assumed to increase in line with dwelling rents.
- Capital costs are assumed to increase by CPI plus 1% for the same period as rent increases, before reverting to CPI from April 2036.
- Provision for depreciation increasing at CPI throughout.
- Capital maintenance of the existing tenanted stock (subject to Right to Buy sales) is initially modelled at a total of £262m (at today's prices before any adjustment) over 30 years from 2025/26; this provides for the existing capital programme for years 1 to 3, moving to the Stock Condition Survey data after this, with the backlog delivered over the following 10 years. This level of investment includes an energy uplift of £44m to allow boilers to be replaced with heat pumps from year 10 onwards.
- The overall stock investment profile therefore equates to £86,540 per property, or £71,910 without the energy uplift incorporated. This is marginally above national average benchmarks, particularly for an authority outside London, 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.
- Inclusion of 179 acquisition and new build homes on identified sites, between 2025/26 and 2027/28, with a further 30 homes per annum assumed to be delivered from 2029/30, on an ongoing basis, to ensure that RTB receipts are utilised and that stock numbers are increased long-term.

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- Interest calculations based upon a “single loan pool” approach, with an opening HRA Capital Financing Requirement (CFR) of £45.1m, with interest charged on the internal borrowing at a rate of at 4.00% from 2025/26 onwards.
- New borrowing also assumed at a rate of 4.00% from 2025/26 on an ongoing basis.
- Interest received on HRA cash balances at 2.00% from 2025/26 and throughout the life of the plan.

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

- Borrowing for both acquisition / new build and investment in the existing stock is approximately £349.2m during the life of the plan.
- Provision is made to set aside revenue resource from year 1 onwards, to pay down a small proportion of the existing borrowing as if it is taken out on an annuity basis, with £13.2m set-aside during the life of the plan.

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, as opposed to the outgoing rent, with a 2.5% turnover rate assumed.

Void levels are incorporated into the financial model at 2.88% from 2026/27 onwards, and an annual contribution to the bad debt provision of 0.14% has been modelled throughout, based upon the budget proposed for 2026/27 and anticipated continued performance at these levels. The level of voids is higher than included in previous years, and higher than sector averages, so may be worthy of review for future iterations of the plan.

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, giving rise to a 4.8% rent increase in April 2026.

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 10 in 2025,26, reducing to 5 per annum on an ongoing basis, with the government announcement of a return to the pre-2012 maximum discount levels from 21 November 2024 resulting in the assumption of a reduction in sales in future years. The discount changes have reduced the maximum discount from £102,400 to £38,000.

Estimated sales over the next 30 years account for a stock loss of 5.1% over the plan period (excluding any disposal or regeneration schemes). We have made adjustments to rents and capital investment assumptions to reflect the stock losses incorporated, but not to management and maintenance costs, as changes in activity are anticipated to be marginal.

Capital works to existing properties

The model reflects the proposed capital programme for the first 3 years, moving to the investment identified in the Stock Condition Survey from year 4 onwards, with the backlog assumed to be delivered across 10 years from this point on.

The stock investment includes an uplift of £44m on top of the basic energy works budget, to allow boilers to be replaced with heat pumps during the life of the plan.

Table 2.1 – Stock Condition Survey and Capital Programme Investment Requirements

	Backlog	Years 1 to 5	Years 6 to 10	Years 11 to 15	Years 16 to 20	Years 21 to 25	Years 26 to 30	Total
Communal Works	7,781,940	19,425,861	15,945,505	15,260,648	14,736,182	11,746,976	14,292,011	99,189,124
External Work	296,009	187,857	99,005	127,355	450,880	300,051	72,475	1,533,632
Internal Works	5,922,054	17,173,717	10,611,422	5,555,865	4,228,540	8,621,372	10,873,822	62,986,792
Other Works	0	5,933,330	5,583,330	5,583,330	5,583,330	5,583,330	5,583,330	33,849,980
Energy Works	0	2,000,000	2,400,000	4,000,000	4,000,000	4,000,000	4,000,000	20,400,000
Total	14,000,003	44,720,765	34,639,262	30,527,199	28,998,933	30,251,729	34,821,639	217,959,529
Energy Works	0	0	1,873,305	12,958,200	16,169,580	8,662,500	4,678,200	44,341,785
Total Including Energy Uplift	14,000,003	44,720,765	36,512,567	43,485,399	45,168,513	38,914,229	39,499,839	262,301,314

In addition to decent homes and building safety investment, the capital plan, and therefore business plan, also includes:

- Environmental improvement works
- Garage improvement works
- Disabled adaptations
- Energy Works

The total level of investment anticipated over 30 years (at base year process) is £262m, or £86,540 per property, but this includes the investment in energy efficiency works to replace boilers with heat pumps over the life of the plan. With the energy investment excluded, the investment per property over 30 years would be £71,910, which is marginally above sector averages of around £69,000 with this cost rising as more surveys are completed, providing comfort that the investment included in the baseline plan is prudent.

The level of investment will need to be kept under review as any improved Stock Condition Survey data is available, and as regulatory standards are confirmed, to ensure that the plan includes all of the resource required to meet the identified investment needs.

Acquisition and New Build Assumptions

The plan provides resources and external funding assumptions for a programme of 179 acquisition or new build homes on identified sites, over the first 3 years to 2027/28.

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 go some way to replacing homes

sold under the Right to Buy, with the business plan financial model not making any reduction in management or maintenance costs to recognise the loss of these homes.

From year 5, the assumption is included that 30 new homes per year can be delivered, either through acquisition or development, to meet a commitment to increase the property portfolio by 1% per annum. This assumption includes the use of Right to Buy receipts to part fund the new homes, but also results in the need for continued borrowing throughout the life of the business plan. There is the potential to secure grant funding towards the delivery of these homes, which should be actively explored.

Interest Rates

The Council operates a single-pool approach to managing debt, with the HRA simply paying the General Fund interest based upon an average annual interest rate and the indebtedness of the HRA, as measured by the HRA Capital Financing Requirement, which was £45.1m at 1 April 2025. Interest is assumed to be charged to the HRA at the rate of 4% from 2025/26 on an ongoing basis.

New borrowing is also assumed to be at the rate of 4% throughout the term of the plan, assuming short-term borrowing and associated loan rates.

There is a risk in respect of the interest rate incorporated, which may be considered optimistic, particularly if longer-term borrowing were to be considered, or the HRA preferential rate were not to be extended after the end of March 2026.

The baseline plan assumes that revenue resource is set-aside for the repayment of debt, based upon the HRA share of a corporate Minimum Revenue Provision (MRP) calculation on an annuity basis. This results in the set-aside of £13.2m over the 30-year life of the plan.

Internal lending is assumed at an interest rate of 2% from 2025/26 onwards.

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 in line with the latest stock condition data and to deliver new homes, whilst also demonstrating overall financial sustainability.

In preparing the financial model, a minimum balance for the HRA of £1.9m has been applied, which is inflated to £2m for 2026/27 and continues to be inflated throughout the life of the plan.

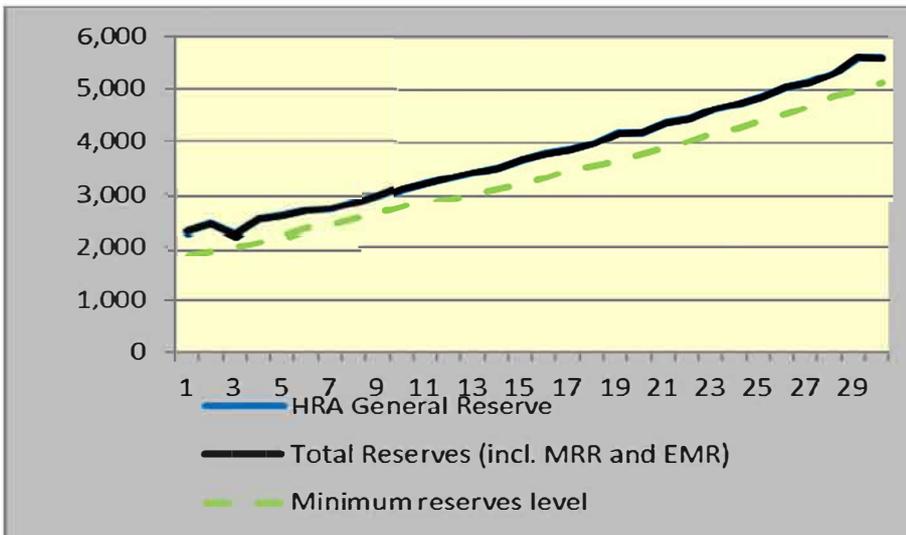
Various methodologies can be applied for arriving at a minimum reserve balance:

1. Equivalent to a period of gross expenditure. In the case of Medway £1.9m is equivalent to 1.7 months of expenditure; and we have seen 1.7 months set as a basis elsewhere.
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, as adopted by Medway, and would be £2m for 2026/27 as included within the baseline plan..
3. Finally, a straightforward allowance per unit could be used, which equates to £627 per unit whereas values closer to £900 per unit are modelled elsewhere.

Having considered the above benchmarks, the current level of reserves of £2m for 2026/27 is considered to be in line a number of the metrics, and as such, represents a prudent level of general reserves within the baseline plan.

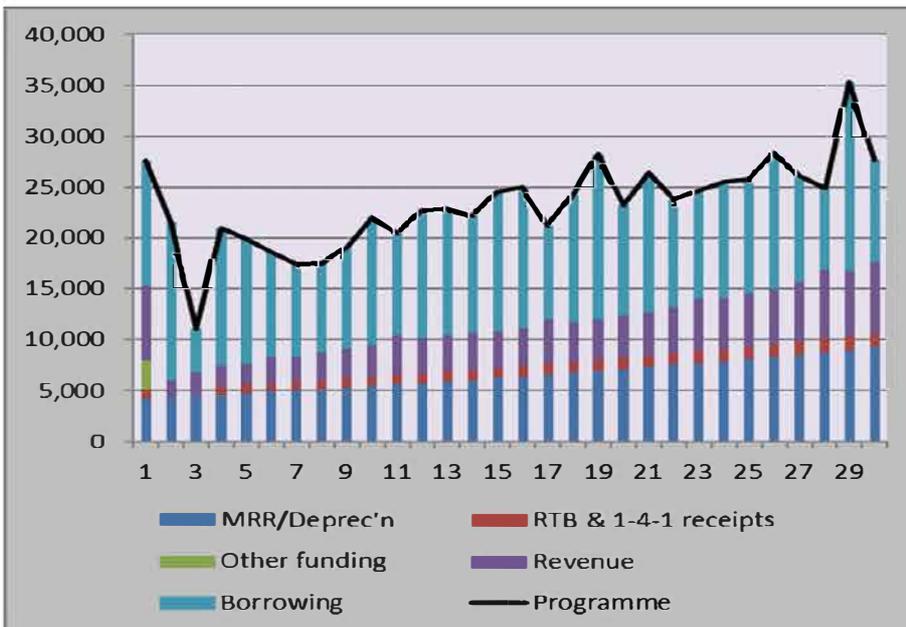
The chart below shows the projection for HRA reserves, maintaining reserves at, or above the minimum level, with the starting level of £1.9m inflated annually in line with CPI, with available remaining resource in the HRA utilised to finance the capital programme throughout the life of the plan, to mitigate the need to borrow.

Chart 2.1 – Projected HRA balances £'000's



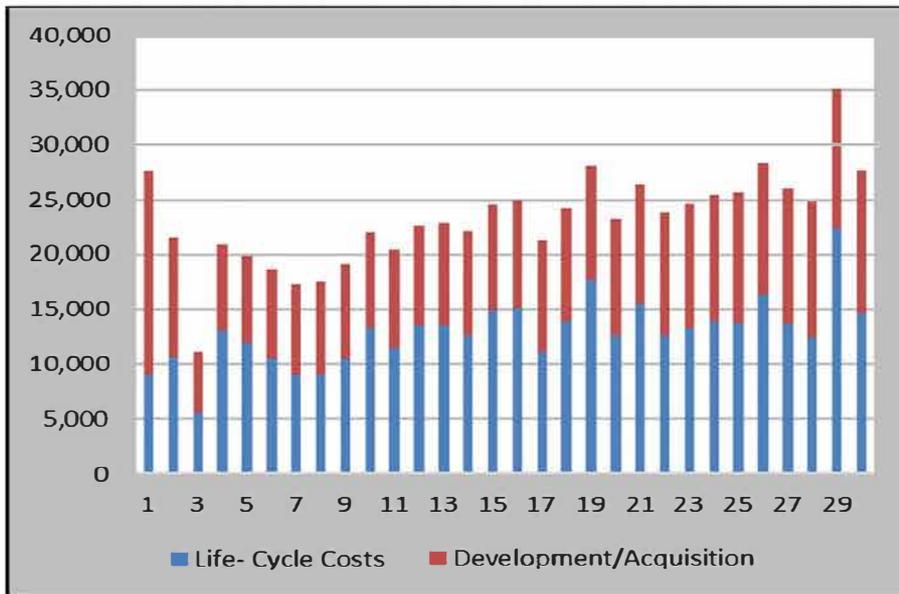
These projections demonstrate that all available HRA surpluses are utilised each year as revenue contributions to finance capital expenditure, with reserves maintained at just above the minimum level throughout.

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



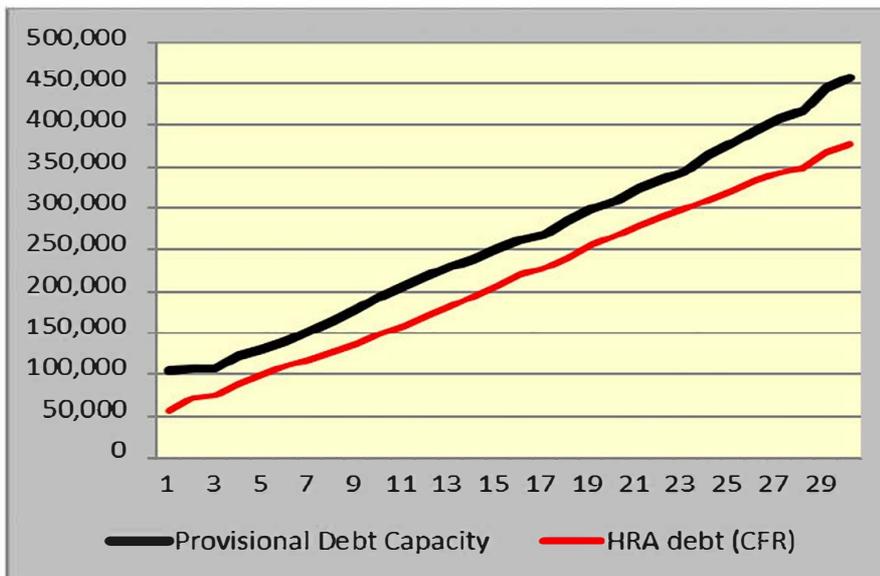
Capital expenditure is fully financed throughout the 30 years as demonstrated by the horizontal black line, but with borrowing required throughout, both to support the planned investment in the delivery of new homes and also the required investment in the existing housing stock, which includes additional funding to replace boilers with heat pumps. If the programme to increase the property portfolio by 1% per annum and the funding to upgrade to heat pumps were removed from the business plan, there would be no additional borrowing requirement after year 10, demonstrating how the Council is currently utilising the investment capacity within the plan.

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



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



The baseline plan intentionally utilises investment capacity, with the investment required to replace boilers with heat pumps and a programme of new homes to “grow” the business, without any assumed grant funding for either, fully incorporated.

Borrowing is projected to increase, as identified above, throughout the entire life of the plan to meet both the planned investment in the delivery of new homes on an ongoing basis to grow the property portfolio and the commitment to improve the energy efficiency of the existing housing stock.

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 notional prudent limit on borrowing based upon the underlying net income generated within the plan. Borrowing sits below this measure of debt capacity, as measured by an interest cover ratio of 1.25 throughout, but with a relatively modest amount of additional borrowing capacity available within the plan, recognising that available capacity is already committed in part to deliver future growth in the housing stock and to facilitate energy improvements in the existing stock.

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 baseline business plan provides for additional revenue contributions to the capital programme over time, balanced against meeting the costs of additional borrowing.

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 Medway 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 27% and rises to circa 44% over the long-term, as a result of rent income increasing at a faster pace than some of the costs and an increase in stock numbers, with marginal operational costs assumed. Margins are very significantly above benchmarks from the outset, when compared with other local authorities, and improve

Are of 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

further as rents rise at a faster pace than costs in the first 10 years, and the property portfolio increases in size with marginal increases in operating costs.

The plan shows a viable financial position in terms of HRA revenue projections, with the expectation that surplus revenue resources will be available to help finance the capital programme throughout. Much of the investment capacity within the plan is currently committed to increasing the number of homes in the HRA and to improving the energy efficiency of the existing stock, but some capacity remains, giving rise to the ability to consider how best to utilise this resource to further meet housing priorities in Medway.

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 new build homes help to support the interest payments on the continued borrowing within the plan.

Chart 2.4 shows the notional 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 some remaining borrowing headroom available from the outset and throughout the plan.

The impact on the “golden rules” for setting prudential limits is affected in terms of:

- Forecast levels of debt (HRA CFR) increase throughout the plan to support investment in new homes and planned investment in the existing housing stock, with debt forecast to reach £376m by year 30.
- There is £13.2m of resource assumed to be set-aside for debt repayment over the life of the plan, but this is effectively more than replaced with new borrowing to meet the investment requirements within the baseline business plan.
- Forecast borrowing is below the interest cover “golden-rule” of 1.25 throughout the life of the plan, with an ICR of 2.44 in 2025/26, reducing to 1.52 by year 30, indicating a financially viable position, but with significant proportion of the additional investment capacity committed across the plan period.
- No business plan is without inherent risks, all of which will need to be monitored, managed and mitigated wherever possible; however there is still remaining headroom within the Medway plan to address risks as they might arise, or to allow additional investment, assuming investment hurdles and metrics are met.

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 the Minimum Energy Efficiency Standard, we have specifically reviewed some sensitivities in respect of the impact of some 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 current level of proposed additional borrowing in the business plan, the level of interest rates will have an impact on the plan.

The interest rates supplied for use within the plan are based on the Council's view of the treasury sector, with new borrowing assumed to be a rate of 4% for 2025/26 and beyond, assuming that short-term loans are taken out, but the markets, and particularly Government gilts, are difficult to predict.

At the time of writing, PWLB maturity loan rates vary from 4.57% to 6.09% 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 later in January 2026. Outside of this, the PWLB certainty rate of 20 basis points below the standard rate will still apply. Therefore the 4% rate assumed for borrowing may not be unrealistic, if very short-term loans are assumed, and supporting the optimistic view that rates are anticipated to reduce in the coming months and years.

However, the rate may arguably be low, particularly if longer-term borrowing were to be considered in the current market, or the HRA preferential rate were not to be extended after the end of March 2026.

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 Medway, which assume a rate of 2.2% for 2027/28 and that 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 Budgetary 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 Augst 2025 inflation was expected to be:

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

In December 2025, the Bank of England reduced the base rate to 3.75%, and confirmed that they anticipated the fall back to the 2% inflation target would be quicker.

The Office of Budgetary 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 could be the rate 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 later 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 Reduced Stock Condition Survey (SCS) Investment

The baseline financial model assumes investment in the existing stock at an average of £86,540 per property over 30 years, which includes investment of £44m to replace boilers with heat pumps.

To demonstrate the impact on the business plan of including this additional investment, we have modelled the impact of investment at £71,910 per property over 30 years, which is the sum required if the Council were to continue to directly replace boilers as they have some historically.

3.5 Increased Development Investment

The baseline financial model assumes investment in the delivery of new homes at a rate of 30 per annum from year 5 onwards, to meet a commitment to add 1% to the housing stock each year.

To demonstrate the impact of utilising some of the remaining investment capacity within the plan, we have increased this number to 40 per annum, using the same cost per unit and assumed rent levels.

3.6 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

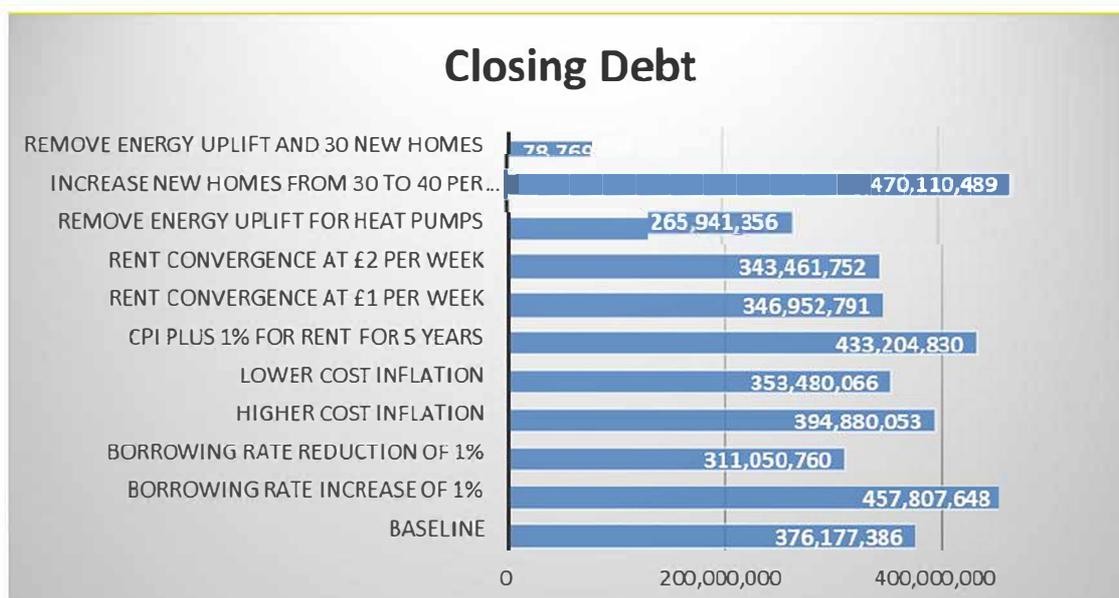
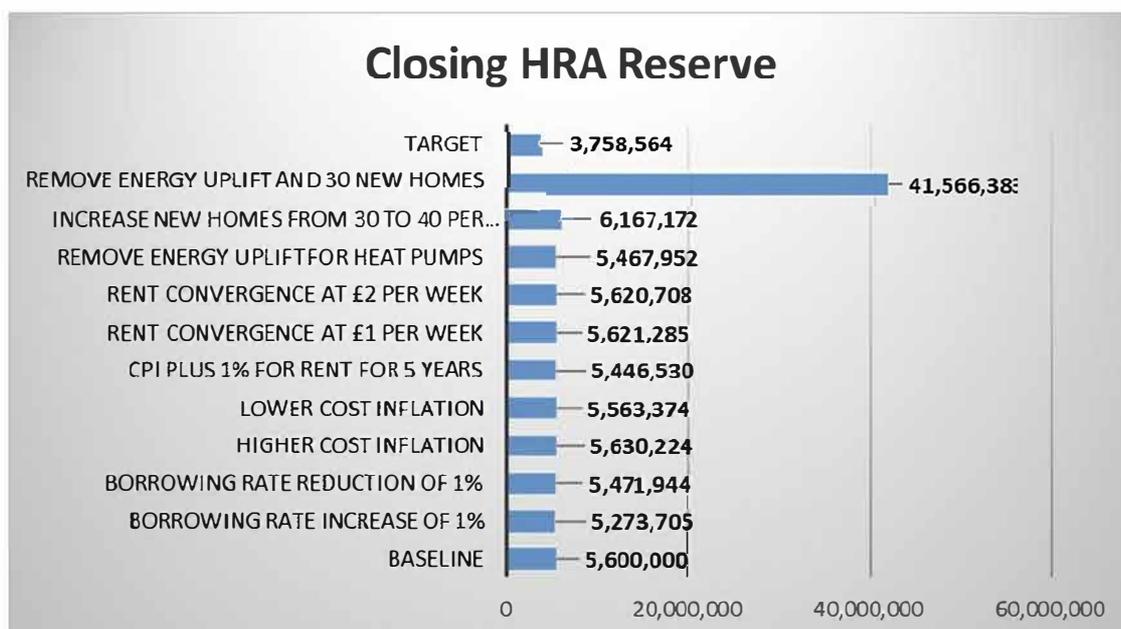


Chart 3.3: Closing HRA Reserves modelled against above sensitivities



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 additional borrowing to be undertaken within the plan, and to the level of investment required in the existing housing stock.

The re-introduction of rent convergence would deliver additional resources in the short-medium term and these would extend over the life of the plan, with the ability to reduce the closing debt from £376m in year 30 of the baseline business plan to £347m if rent convergence were reintroduced at £1 per week and £343m if it were to be at £2 per week.

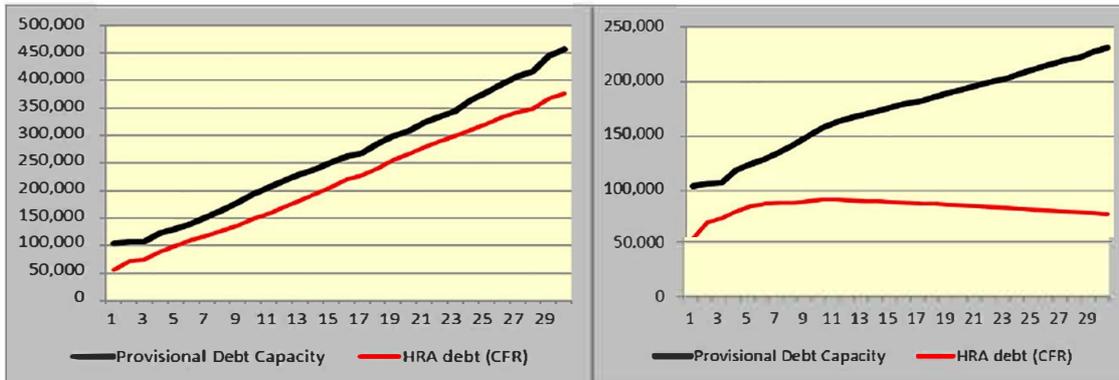
It is clear that there is a risk in the baseline plan in terms of the interest rate assumed for future borrowing, with a rate of 4% assuming very short-term borrowing at currently available rates. The sensitivity modelled of an increase of 1% in this rate has the most material impact on the interest cover ratio throughout the life of the plan, with an ICR of 1.02 by year 30. This would result in an increase in borrowing to a level that might not be considered "prudent" in risk management terms, as measured by a net operating income interest cover ratio of 1.25, and will need to be kept under close review, with decisions made about additional borrowing in the context of the rates available at the time and the impact of these on the business plan.

It is clear that a reduction in the level of investment required in the existing housing stock, with the removal of the energy uplift to replace boilers with heat pumps would release capacity for investment elsewhere if priorities were to change or external funding were to become available to meet the costs of the energy improvements.

The scenario which removes both the energy uplift and the assumption that 30 new homes are delivered each year, part-funded using Right to Buy receipts, demonstrates the significant capacity that exists within the plan, without these local properties incorporated. The charts below compare the capacity within the baseline plan with that which would exist with these items removed, demonstrating a low risk scenario, where debt would stabilise and future capacity would increase.

Medway Council

Charts 3.4 and 3.5 – Provisional debt capacity baseline model versus removal of both energy uplift and 30 new homes per annum



The Council will, of course, need to keep the entire 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 changes in national policy and particularly future investment standards become clearer.

4. Summary

1. The HRA business plan forecast as set out in our modelling for Medway Borough Council shows projections for reserve balances, forecast debt (HRA CFR) and future potential borrowing capacity.
2. The baseline version of the financial model demonstrates a “growth” plan that is financially viable, with a significant proportion of the investment capacity within the plan committed to delivering an increase in both the size of the property portfolio and in energy improvements in the existing housing stock. Debt increases within the plan in line with increasing income and growth in the property portfolio. Over the life of the business plan, the debt increases by 735%, supported by an increase in income of 181% to deliver an increase in stock of 27%. There is however, some investment capacity remaining to consider additional investment to meet housing priorities. There is the ability to maintain a minimum level of HRA reserves, initially set at £1.9m, with all surplus resources committed as revenue financing for the capital programme. Additional borrowing is required throughout, with this relating to investment in new homes, alongside the delivery of energy improvements to the existing housing stock in the longer-term.
3. The minimum level of reserves, initially set at £1.9m, is considered appropriate when measured against a number of metrics.
4. The baseline plan is constructed on a sound financial basis but given the inherent potential for changes in respect of investment requirements in the existing housing stock, rent increases, inflation and interest rates, we have run a number of scenarios which could potentially develop over the coming months.
5. Therefore, this is very much a position statement (as of January 2026), 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 receipt of any updated stock condition data and impending government announcements (rent convergence, HRA borrowing rates, update to the Decent Homes Standard, MEES).
6. As identified in the sensitivities section of this report, there are a number of mitigations that could be applied by the Council if assumptions were to change or there were to be unexpected costs, or an unanticipated loss of income, with the ability to reduce stock investment levels in respect of discretionary investment or reduce or completely halt development and acquisition. This provides comfort that the business plan is resilient to potential risks.
7. With a level of investment per property of £86,540 (£71,910 excluding investment to replace boilers with heat pumps), which is marginally above benchmark values, there may be scope to review this assumption as any refreshed Stock Condition Survey data is available. However, the Council will also need to consider the impact of the revised Decent Homes Standard and MEES, once the consultation outcomes are clear.
8. The Council will need to review the business plan projections once the outcome of the rent convergence consultation is published (now expected later 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.
9. The Council will need to borrow throughout the life of the plan to meet the proposed investment in new homes and energy improvements to the existing stock. We have identified how the level of borrowing compares to notional “golden rules”, with the plan identifying that proposed borrowing would be within levels that may be considered “prudent” against standard sector benchmarks. Any new borrowing will still require careful management to ensure that risks are identified and mitigated where possible.

10. 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 agreed initial minimum of £1.9m. Using the notional “golden rule”, with a net operating income interest cover ratio of 1.25 of net operating income after depreciation, the baseline plan demonstrates that there is additional investment capacity throughout, with the ICR starting out at 2.44 in 2025/26 and reducing to 1.52 by year 30, recognising that some of the capacity has already been committed within the plan. 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 any borrowing proposed in future years, taking account of any changes in internal or external factors that may introduce additional risk.
11. The business plan reflects operating margins which are above benchmark at the outset, and improve further as rents are assumed to increase at a faster pace than costs in the first 10 years and the property portfolio grows. The operating margin is significantly higher than benchmarks across the sector and increases from 27.1% at the outset to 44.0% by the end of the plan period.
12. The sensitivities modelled show that a reduction in interest rates or positive changes in rent increases would reduce financial risks and further add to long-term capacity. Conversely, an increase in interest rates, or constrained rental increases will add pressure to use up capacity. It should be noted, that an increase in interest rates, modelled at 1% for all new borrowing caused the business plan to move to a position where the proposed level of borrowing would be significantly outside what might be considered “prudent” in risk management terms, supporting the view that opportunities to secure external grant funding should be maximised and all new borrowing should be considered in advance of the year it is required, in the context of available rates and the impact on the business plan, to allow alternative investment decisions to be made if necessary.

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