



FINAL REPORT

# Shelter Options for reducing Housing Revenue Account Debt

June 2026

# Contents



<b>Section</b>	<b>Page/slide</b>
<b>Part One: Introduction and context</b>	3
<b>Part Two: Financial Analysis</b>	8
<b>Part Three: Local Authority Case Studies</b>	14
<b>Conclusions and recommendations</b>	21
<b>Appendices: technical supporting information</b>	24



## Part One: introduction and context

# 1.1 Introduction



This paper summarises research undertaken into the level of debt within Housing Revenue Accounts (HRAs) in England, how that debt is affecting the capability and capacity for local authorities to deliver on their objectives – and the objectives set by Government and the Regulator of Social Housing – and the options for reducing debt to release capacity to invest in new homes.

Savills Affordable Housing Consultancy previously carried out a high-level analysis of options to reduce HRA debt for the Chartered Institute of Housing in 2024: <https://www.cih.org/news/new-report-proposes-updated-debt-settlement-to-resolve-council-underinvestment-in-housing/>

This research builds upon that original analysis in a number of key ways, by:

- Reviewing assumptions and inputs in the light of policy changes and economic movements since 2024
- Incorporating a “bottom up” analysis of future costs based on actual business plans
- Gaining insight from engagement with a sample group of ten local authorities
- Placing the research in the context of wider fiscal and Local Government Reorganisation (LGR) backdrops.

The objectives of the research are to:

- Understand the challenges relating to unsustainable HRA debt, taking into account recent policy changes, including rent convergence
- Understand the scale of debt removal necessary/achievable and the impact of debt removal on social rent delivery nationally, regionally and locally
- Understand as far as possible the wider economic benefits of debt reduction and the impacts on government finances.

We would like to thank all those that have contributed ideas and information for this research and report, and particularly colleagues at Shelter for their invaluable advice and guidance in shaping the key messages within the report.

Shelter and Savills worked to select ten authorities felt to be representative of experiences across all authorities; we have conducted interviews and analysis for each.

The authorities within the sample are intended to provide a representative view of typologies across the HRA sector:

- London Boroughs: Newham, Ealing, Camden
- Cities/Mets: Birmingham, Sheffield, Wigan
- Unitary authorities: Bournemouth, Christchurch & Poole (BCP), Medway
- Districts: North East Derbyshire, Guildford

Colleagues at each of these authorities provided time and insight for this research. The outcomes of the discussions and analysis are summarised within this report.

The insight provided highlights the following overarching themes, set out in further detail within the report:

- Debt reduction or write-down / write-off should not be seen in isolation, rather as one of a number of potential financial policy initiatives to enhance HRA capacity
- The focus towards investment into the existing stock is eroding capacity for new development – this is exacerbated by the rising costs and complexities of development, especially regeneration
- **Authorities would be prepared to enter a “Compact” or form of commitment to support new homes delivery in return for debt write-down or write-off.**

## 1.2 Background: unsustainable debt in the HRA

The current level of debt borne by HRAs across England is primarily a function of the “Self-Financing Settlement” which was implemented on 28<sup>th</sup> March 2012. The initial settlement of £29.2billion was widely welcomed by the sector in that it replaced negative subsidy payments with a lower debt cost, or in some cases positive subsidy payments with reduced debt costs. The original settlement capped debt for HRAs at the level of the settlement.

Since 2012, many authorities have borrowed further, some authorities have reduced their debt levels, and all have managed debt proactively since the release of the HRA debt cap in October 2018. All of these movements taken together lead to the current debt position, and whilst debt was relatively stable at between £26-27billion from 2012 to 2022, there has been a recent rise in HRA debt to £31.8billion at 31<sup>st</sup> March 2025.

However, also since 2012, the settlement has been undermined in a number of material ways, including rent reductions and caps in some years, the introduction of higher regulatory and property standards than originally provided for and the fact that the extension of Right to Buy discounts introduced at the same time were not included within the settlement, eroding the property base further than originally modelled.

Recent economic and regulatory challenges have further undermined the assumptions on which the HRA settlement was based, particularly higher inflation, increased service demands, and enhanced regulation from both the Building Safety Act and the Social Housing (Regulation) Act without a recognition of funding for what many in the sector see as “new burdens”.

Our analysis previously undertaken for the CIH in 2024 resulted in modelling and a research report which was constructed on a “top down” basis, i.e. based on the whole sector, but the research was necessarily limited in terms of scope around the assumptions that would need to be made at a national level. We highlighted to CIH at the time that a reopening of the HRA debt settlement would probably require a very detailed data collection and analysis exercise at the local level, itself constrained by past government policies.

This project takes the work on a step further, linking options around debt to the specific challenges being experienced by authorities and the objectives that they have (set by government and by members locally).

The work to engage with individual local authorities is therefore seen as an essential component of the research in taking the analysis to a “next stage” in which practical considerations around how resources unlocked through debt reduction could be utilised to deliver increased investment in new social homes.

Following the abolition of the HRA debt cap in 2018, local authorities have a statutory duty to report on HRA-specific Prudential Indicators adopted within CIPFA's Accounting Code of Practice (the Prudential Code).

Working with CIPFA, the trade bodies within local authority housing and a range of local authorities directly, Savills has helped develop a growing and comprehensive approach to measuring capacity for investment in HRA business plans.

Whilst a suite of measures is neither identical for every HRA, nor appropriate for every local HRA circumstance, management of capacity has developed around a series of indicators or metrics that are well understood across the sector, for example:

- Interest Cover Ratio (ICR) – measured both in terms of how net operating income can cover debt financing costs (Net Operating Income or NOI ICR), and in terms of comparables to the housing association sector (the equivalent of EBITDA-MRI ICR – see *footnote on page 7 for definition*)
- Debt to Turnover
- %age of rent income that is spent on interest costs.

A key and consistent theme across HRAs of any size, authority-type or location, is that these metrics have become tighter (i.e. interest cover reduced, debt increased, financing costs increased as a proportion of rent income). They have become tighter even before investing in new social rent homes; with a big new build programme, these metrics would be significantly worse in the short-medium term representing a very high level of risk to business plans.

The current level of HRA debt therefore acts as a barrier to taking on borrowing to support extensive new build programmes without taking on an unacceptable level of risk in the short-medium term.

# 1.3 Methodology recap

Our approach is to revise the original settlement figures from 2012.

We have not modelled a completely new settlement as at 2026, as this would not be compatible with the basis of the original settlement – we are drawing on legislation within the Localism Act 2011 that allows for the settlement to be reopened, not for the entire settlement to be abandoned and replaced.

We have modelled alternatives based on introducing new standards and cost pressures from specific years, and tested scenarios which explore the impact of assuming that these standards were introduced from the start of self-financing.

Our approach involves deflating all inputs and cost estimates to a 2012 base to reflect the introduction of policy and other changes since that date – envisaged as at that date.

This results in a series of figures which represent the impact of releasing capacity through reducing debt in relation to specific factors.

As a reminder, there are fewer authorities with stock now than in 2012: the debt for 169 authorities in the original settlement totalled £29.188m - this is rebased to 158 authorities totalling **£28.685m**.

The revision calculation is straightforwardly applied for rents, property numbers and inflation as this affects all authorities.

For higher standards, we face the challenge that all authorities will be in a different position in respect of meeting regulatory changes to building safety, Decent Homes and Minimum Energy Efficiency Standards (e.g. some authorities may have completed their fire safety investments, others are part-way through their programmes).

As for the original settlement, this is best addressed by assuming that all authorities have completed the achievement of the relevant standards.

The estimated impact on debt reduction is (therefore as before) an approach undertaken at a national level by setting out the possible “order of impact”; all factors would need to be established and agreed in detail to inform an actual revision.

However, we have introduced two additional scenarios:

- An “Actual Business Plan Scenario” to represent the estimated costs of stock investment profiles as actually included in approved business plans within a revised settlement calculation
- A Net Carbon (NZC) Zero scenario – in addition to the above business plan scenario as NZC is generally excluded from plans.

## RECAP SUMMARY OF CHANGES AFFECTING THE SETTLEMENT

### RENT POLICY/CONVERGENCE

4 years of rent cuts 2016-2020  
 1 year of rent cap 2023 (CPI – 3.1%)  
 Rent convergence reintroduced from 2027 to recover 4.1% over 10 years  
 Reflecting switch RPI to CPI from 2016

### NO. OF PROPERTIES

Much reduced compared to the 2012 settlement – as a result of higher Right to Buy discounts from 2012  
 Restrictions on discounts introduced in 2024 realign future property losses to the original settlement

### STANDARDS (1)

An assumption of additional costs that have NOT been funded by capital grants  
 Starting point for modelling at £5,000 p/unit 2020-2030  
 This would apply variably over different authorities

### STANDARDS (2)

An assumption of revised Decent Homes Standard pressures – applied at a starting point of 10% introduced from 2024  
 Additional supply chain pressures of 5% applying 2025+

### ECONOMIC CONDITIONS SINCE 2020 ONGOING

Pressures apply to capital and revenue repairs expenditure, the cumulative impact of inflation is both captured in a single uplift to a revised capital expenditure profile – BCIS>CPI since 2020 = 10%

### REGULATORY PRESSURES

Application of 5% uplift to both management (competency) and repairs (compliance) and the introduction of Awaab’s Law from 2025

### ACTUAL BUSINESS PLAN SCENARIO

Our estimated forward forecast of actual capital costs included within LA business plans (based on insight from LAs and our own business plan sample – more than one third of HRA stock); this totals £74,000 per property over 30 years at 2026 prices – this is the equivalent of £50,000 per property at 2012 prices

### NET ZERO SCENARIO (NZC) (additional to business plans)

An estimated cost to deliver Net Zero Carbon of £17,000 per property across the entire stock at 2026 prices, the equivalent of £11,500 per property at 2012 prices

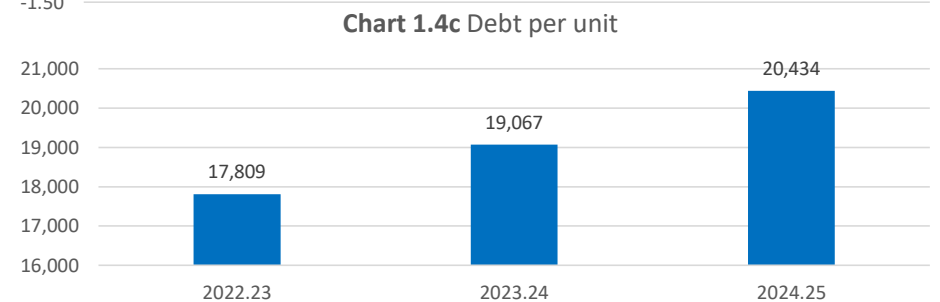
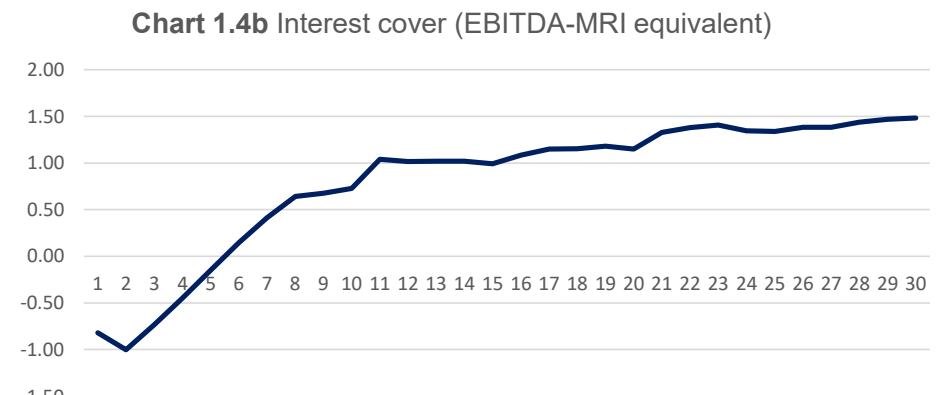
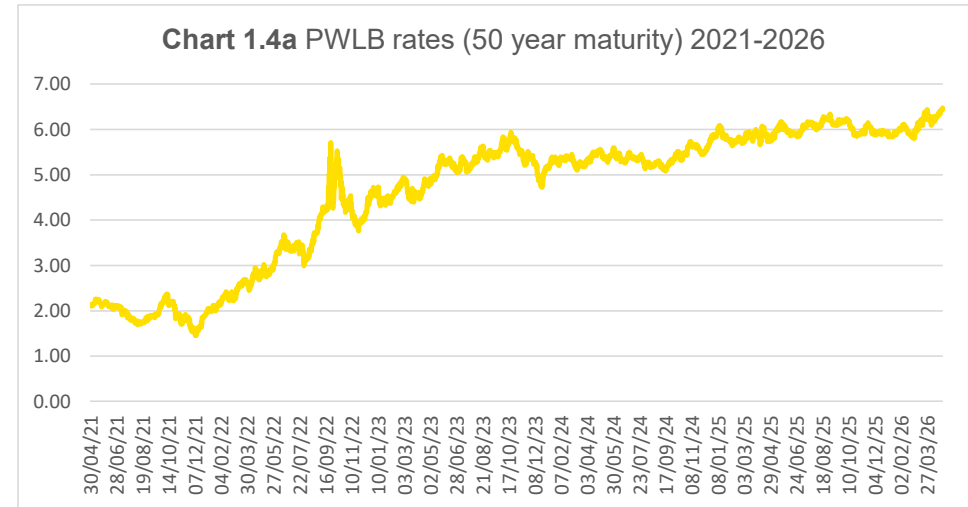
# 1.4 Financial pressures on HRAs

Financial pressures continue to impact the HRA in the wider context.

In particular...

- Significant increases in capital investment needs (see financial analysis below)
- Borrowing costs are higher than they have been for decades with 50-year maturity lending from PWLB at over 6% (as shown in the top chart – chart 1.4a).
- This exacerbates a position where loans taken out for self-financing at very low interest rates in 2012 are coming up for refinance at much higher rates, at a time when there are not resources within business plans to repay them (see note on self-financing debt in the appendices).
- The capability to take on short-term loans with a view to benefiting from a reducing interest rate environment in the medium-term is becoming further limited through geopolitical events in the spring of 2026.
- Whilst interest cover measured in the HRA at “Net Operating Income” (NOI ICR) remains reasonably positive as authorities manage their reserves and revenues to ensure that interest costs within the HRA are able to be covered on a day-to-day basis, the full impact of capital and maintenance costs read against interest cover as shown in chart 1.4b (middle chart), the equivalent of housing association EBITDA-MRI\* interest cover highlight:
  - ...A negative position for at least 5 years
  - ...A “below 1” position for the next 10 years
- This is a significantly greater challenged position compared to housing associations.
- Having been relatively stable for 10 years following self-financing, HRA debt continues to rise – increasing from £27.7billion in March 2023 to £31.8billion in March 2025, the bottom chart 1.4c shows the debt per unit across these years.
- The charts highlight the extent of the challenge in the short-medium term – suggesting that there is likely to be a continued need to borrow for investment into the existing stock in the short-term if investment needs are unable to be re-phased.

\* EBITDA – earnings before interest, tax, depreciation and amortisation for housing associations (see further note in appendix); the addition of MRI reflects “Major Repairs Included” adding all revenue and capital costs together to expenditure and deducting from income before comparing to interest costs





## Part Two: Financial Analysis

# 2.1 Updating investment needs based on actual plans



## Updating Capital Investment Needs

As set out above, capital investment needs were previously based on a national estimate for:

- Fire & Building Safety
- General standards increases
- Speculative on DHS2 (and what would become MEES)
- Generational inflation – not returning to the “norm” following the post-Covid spike in capital maintenance costs

These estimates were, and are, based on a national view informed by surveying and asset management with local authorities across the country – and remain a reasonable estimate based on a national average view of metrics and movements in inflation.

The cumulative impact of decisions taken based on recent stock surveys, updates to estimates of requirements relating to building safety, the updated Decent Homes Standard and MEES are all captured within actual business plans.

We have therefore estimated the impact on debt levels based on what business plans as approved by authorities have included within them in 2026/27.

Our sample covers just over one third of the HRA stock with an appropriate split across the country (especially between authorities within London and authorities outside London).

This provides a detailed evidence-base of the financial pressures that face local authorities, moderated and triangulated with feedback from our sample local authorities engaged within this research.

## Net Zero Carbon

Insight from the engaged local authorities within this project, and Savills’ work with HRA authorities more widely, suggest that Net Zero Carbon investment beyond meeting MEES/EPC “C” by 2030 is not generally included within business plans.

We have run scenarios based on £17,000 per home across the entire stock - the estimate is taken from work undertaken by Savills surveyors for HAs and LAs in England and RSLs and LAs in Wales. The scenarios take effect from 2030, on two bases:

1 - on the basis that this would be achieved by 2050; as the original settlement ran from 2012-2042, this scenario provides for 12 years of costs out of the 20 years from 2030-2050 (“Nzc 12y”)

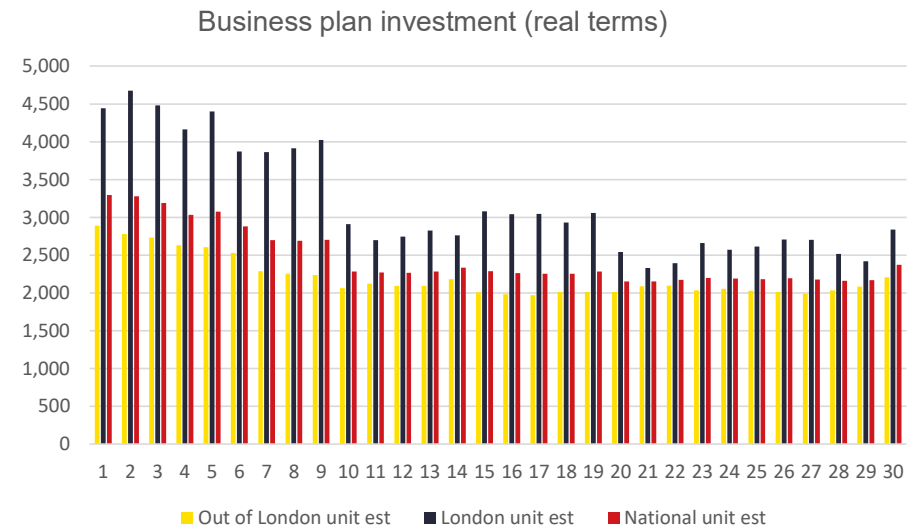
2 - the impact of providing for the full 20 years of investment within the original settlement i.e. providing for the full net zero cost to be completed in 12 years, by 2042 (“Nzc 20y”)

## What is actually included in business plans (2025-2055)?

- Outside of London: £66k/property over 30 years
- London LAs: £95k/property over 30 years
- National average: £74k/property over 30 years
- Deflating £74k/property to 2012 prices -> £49.9k/property
- The original debt settlement covered £30.9k/property

## What is the impact of fully achieving Net Zero?

- Net Zero scenario @ £17k/property (today’s prices) or £11.5k/property at 2012 prices – factored in from 2030



## 2.2 Business plan experience scenarios



The tables highlight the impact on a revised debt calculation from a range of scenarios involving actual business plan totals and estimated Net Zero Carbon (NZC) totals

Actual business plan capital investment totals applied in two ways:

- From the dates that new standards and higher costs began to apply were introduced up to 2025 (i.e. up to 13 years into the settlement calculation)
- From 2012 (i.e. assuming that these standards applied from the settlement date)

Both of these approaches use a “bottom up” approach (differing from the previous method that took a “top down” approach) to estimating impacts nationally, and applying them from recent and future dates are broadly similar - the debt write-down implied by these changes are between £6.386bn (top down) and £6.590bn (bottom up) – see table 2.1 lines A and B

Applying the costs from 2012 can be interpreted as the most appropriate way to reflect these capital cost uplifts, particularly as this would remove the cumulative impact of having had to sustain high levels of debt for the first 14 years post-settlement. As will be seen, the impact of applying these standards now to the opening of the settlement would be to all but eliminate outstanding debt within the HRA.

If funding for net zero carbon investment were to be allowed for within debt write-down (as opposed to a separate capital grant funding programme), as set out above, this could be applied in two ways, acknowledging that the implementation of full net zero strategies would likely take place after meeting “fabric first” approaches implied within MEES, therefore applied from 2030 (year 18 of the settlement calculation):

Completion by 2050 – which implies that there would be either:

- 12 years of additional investment (i.e. 2030-2042 - 12/20ths of the total) “NZC 12y” in table 2.2b
- 20 years of additional investment commuted into the 12 final years of the settlement period to 2042 to provide the headroom to fully deliver from 2030 “NZC 20y” in table 2.2b

The latter is the most appropriate approach to reflect this spending need and provide the capacity required in one go from one re-settlement calculation.

**Taken together, the tables show that all consolidated changes inclusive of capital costs within plans from the outset of self-financing, plus an allowance to provide headroom for net zero delivery – these scenarios result in outcomes which imply complete debt write-off of £31.8bn.**

Table 2.2a Component	Debt write-down £m	Notes
A Previous write-down estimate for capital standards	-6,386	£5k/property + 10% on MRA 2022 + 10% for DHS2 + generational capital inflation with real inflation on capital for 10 years
B Revision to reflect actual business plans from 2025	-6,591	Actual business plans from 2025 with real inflation on capital for 10 years
C What if current standards applied from 2012?	-16,893	Applying current business plan totals from 2012
D Application of Net Zero from 2030	-3,983	From 2030-2042 (to provide headroom within settlement timeframe)

Table 2.2b Component	BP costs from now NZC 20y NZC 12y		BP costs from 2012 NZC 20y NZC 12y	
Recast original settlement	28,685		28,685	
Revision to rent policy with convergence	-10,005		-10,005	
Revision to reflect RTB changes	-185		-185	
Reduction to reflect actual BP capital spend	-6,591		-16,893	
Consumer standards / Awaab’s Law	-932		-932	
Consolidated revised debt position	10,972		670	
Debt reduction implication	-17,713		-28,015	
Net Zero reduction	-3,938	-2,350	-3,938	-2,350
<b>Overall debt reduction implication</b>	<b>-21,651</b>	<b>-20,063</b>	<b>-31,953</b>	<b>-30,365</b>

## 2.3 Debt Analysis: summary

The foregoing analysis has drawn out a series of scenarios setting out the rationale and bases upon which a prospective reopening of the 2012 self-financing settlement and associated HRA debt write-down could be undertaken.

The table opposite captures a summary of all of the relevant calculations organised into four “big picture” scenarios as follows:

- Option 1: Applying forward projections of actual business plan investment totals from the dates that new standards and cost inflation applied
  - Option 1a: All Net zero costs applied within the settlement
  - Option 1b: Net zero costs applied over 20 years i.e. 12/20<sup>th</sup> provided for
- Option 2: Applying forward business plan investment totals as if they had applied from 2012
  - Option 2a: All Net zero costs applied within the settlement
  - Option 2b: Net zero costs applied over 20 years i.e. 12/20<sup>th</sup> provided for

It is emphasised that the rationale for applying new and higher standards and costs with effect from 2012 would recognise that the intention of the debt settlement was to allow business plans to be fully self financing without further recourse to central government support and meeting the needs of the existing stock without recourse to borrowing. Interest costs currently total around £1.1billion\* pa and have consistently been at or just below this level since the settlement, costing c. £13billion in interest costs to HRA in the period from 2012 to 2025.

In overall summary, therefore, by incorporating the full cost of current standards as if they had been introduced from the outset, and by adding in the capacity to deliver on net zero without further recourse to additional funding (i.e. scenario 2a), the calculations suggest that only a total debt write-off would allow authorities to cover future costs for their existing HRA stocks whilst releasing capacity to bring forward new finance for additional supply programmes at scale.

A total debt write-off is implied because the estimated total of £31.953billion highlighted in the table is very close to the last reported HRA debt total of £31.8billion (at 31<sup>st</sup> March 2025).

\* Source: Savills analysis of HRA financial statements for 2024/25

Table 2.3		
Option	Forecast Debt	Implied Debt Write-Down
<b>1 – Business plan investment costs from the date they applied (exc NZC)</b>	<b>10,972</b>	<b>-17,713</b>
<b>1a – All Net Zero costs</b>	<b>7,034</b>	<b>-21,651</b>
<b>1b – 12/20<sup>th</sup> of Net Zero costs</b>	<b>8,622</b>	<b>-20,063</b>
<b>2 – Business plan investment costs as if they had been introduced and applied since 2012 (exc NZC)</b>	<b>670</b>	<b>-28,015</b>
<b>2a – All Net Zero costs</b>	<b>-</b>	<b>-31,953</b>
<b>2b – 12/20<sup>th</sup> of Net Zero costs</b>	<b>-</b>	<b>-30,365</b>

## 2.4 Delivery potential



We have estimated the potential for the release of capacity within HRA business plans to deliver new social rent homes were debt to be written down.

Research work is being undertaken by other trade and professional bodies to exemplify the basis for funding a national programme for delivery of new build Social Rent homes. The key principle is that Social Rented homes require subsidy. Sources for that subsidy could be via:

- Grant from Homes England or the Greater London Authority (GLA)
- Private cross-subsidy from section 106
- Cross-subsidy from net rents within the remainder of the HRA.

The net rent income arising from a new social rent property will not cover the cost of borrowing without grant or subsidy, especially given prevailing interest rates.

The table opposite provides a national and regional average estimate of the “order” of possible delivery for every £billion of HRA debt written off; build costs vary widely as to do rent levels and (particularly for London) the cost base.

Within this table, we have assumed a fixed interest rate of 4.0% on borrowing as this is close to the average interest rate within the HRA nationally; we have also estimated how £1billion of write-off would be split by region (for ease of illustration this is pro-rated per the settlement).

Local authorities may be particularly well-placed to acquire section 106 homes from developers, especially for smaller sites; there is evidence that many HRA authorities have begun to switch from direct development to acquisitions, including s106 acquisitions in recent years.

The potential for s106 acquisitions may be enhanced particularly for those in areas where council housing had previously transferred but which may in future come within the purview of an HRA as a result of Local Government Reorganisation (see appendix A4).

Region	Target rent £/wk	Marginal operating cost / unit	Net Ope- rating Income / unit	Borrow- ing potential / unit (£)	Delivery cost (£)	Implied grant requirement / unit	New supply potential for every £1bn w/off	Grant require- ment implied for addi- tional supply potential (£m)	Debt written off (£m)
London	160.00	2,676	5,644	141,094	440,000	298,906	<b>2,198</b>	<b>657</b>	<b>310</b>
East	134.00	2,329	4,639	115,971	350,000	234,029	<b>1,088</b>	<b>255</b>	<b>126</b>
South East	138.00	2,371	4,805	120,130	350,000	229,870	<b>1,090</b>	<b>251</b>	<b>131</b>
South West	118.00	2,088	4,048	101,198	350,000	248,802	<b>438</b>	<b>109</b>	<b>44</b>
East Midlands	112.00	1,972	3,852	96,307	230,000	133,693	<b>871</b>	<b>116</b>	<b>84</b>
West Midlands	115.00	2,139	3,841	96,031	250,000	153,969	<b>1,275</b>	<b>196</b>	<b>122</b>
Yorkshire & Humber	108.00	1,867	3,749	93,726	230,000	136,274	<b>1,051</b>	<b>143</b>	<b>99</b>
North West	110.00	2,108	3,612	90,308	230,000	139,692	<b>431</b>	<b>60</b>	<b>39</b>
North East	111.00	2,011	3,761	94,017	230,000	135,983	<b>475</b>	<b>65</b>	<b>45</b>
<b>National</b>	<b>130.00</b>	<b>2,250</b>	<b>4,510</b>	<b>112,750</b>	<b>290,000</b>	<b>177,250</b>	<b>8,917</b>	<b>1,852</b>	<b>1,000</b>

The table highlights that:

- For every £1billion of debt written off, we estimate that up to 9,000 (c. 8,900) new social rent homes could be delivered by local authorities; this would increase progressively over time as more homes are added to the social rent stock
- Given the cost of new homes delivery, and the need to protect investment in existing stock in the HRA by ensuring that borrowing potential is used for new build and not the existing stock, for every £1billion of debt, we estimate a need for £1.8billion of subsidy (the difference between new borrowing and the gross cost of delivering homes) with subsidy coming from the three sources referenced opposite.
- The tables on the next page set out the potential at different debt write-down options
- If interest rates were to be higher (say at 6% for new loans), the borrowing potential would reduce from £113k per unit nationally to £75k per unit nationally – at the grant rates assumed above, the new build delivery potential might be reduced to c. 6,000 homes pa

## 2.5 Delivery potential



The principles and assumptions applied to analysing the delivery potential for £1billion of debt write-off have been applied to the total estimates of debt write-off from options set out at 2.3 as follows:

Option 1a represents the debt write-down estimate arising from applying actual business plan investment totals plus an estimate for Net Zero Carbon with additional investment needs applied from the year they arise. The total estimated debt write-down would be £21.651billion

Option 2a represents the debt write-down estimate arising from applying actual business plan investment totals as above but applying as if they were introduced in 2012. The debt write-down is above the level of existing debt and therefore this implies a complete debt write-off – we have used the latest information available which is the debt position at 31<sup>st</sup> March 2025 (£31.852billion)

The tables shows that:

- Under the option 1a approach, the delivery potential would be for local authorities to deliver around **193,000 additional social rent homes**, implying grant or subsidy of c.**£40billion**.
- Under the option 2a approach, the delivery potential would be for local authorities to deliver around **284,000 additional social rent homes**, implying grant or subsidy of c.**£59billion**

As with the regional totals (at tables in 2.4, 2.5 ad 2.6), in general the grant or subsidy requirement runs at a factor of 1.8x the level of borrowing above to be supported within HRAs.

### Additional notes

- It should be noted that as there is a higher relative delivery potential implied by debt write off in London, the implied average grant per property nationally is higher than were estimates to be applied simply at the national level.
- Grant or subsidy could be generated by SAHP grant or through other forms of subsidy such as section 106 or cross-subsidy from the remainder of the HRA; the totals in the tables represent the maximum requirement whatever the source, though cross-subsidy from the remainder of the HRA may be limited in some authorities given that a key principle from the original self-financing settlement is that the level of debt enables the investment needs for the existing stock without recourse to further borrowing; this principle continues to apply if the HRA debt is written down (i.e. we make no assumption of borrowing to invest in the existing stock).

	Option 1a		
Region	Debt write down (£m)	Delivery potential (nos)	Subsidy requirement (£m)
London	6,716	47,596	14,227
East	2,732	23,557	5,513
South East	2,835	23,596	5,424
South West	960	9,491	2,361
East Midlands	1,815	18,847	2,520
West Midlands	2,651	27,604	4,250
Yorkshire & Humber	2,133	22,755	3,101
North West	843	9,332	1,304
North East	967	10,282	1,398
<b>National</b>	<b>21,651</b>	<b>193,060</b>	<b>40,098</b>

	Option 2a		
Region	Debt write down (£m)	Delivery potential (nos)	Subsidy requirement (£m)
London	9,880	70,023	20,930
East	4,019	34,656	8,111
South East	4,170	34,714	7,980
South West	1,413	13,963	3,474
East Midlands	2,670	27,728	3,707
West Midlands	3,900	40,610	6,253
Yorkshire & Humber	3,138	33,476	4,562
North West	1,240	13,729	1,918
North East	1,422	15,126	2,057
<b>National</b>	<b>31,852</b>	<b>284,025</b>	<b>58,991</b>



## Part Three: local authority case studies

# 3.1 Local authority engagement: introduction



Interviews were held with leadership, housing, asset management and finance staff at each of the authorities, from late March until late April.

Four main themes were explored in each discussion:

1. To what extent is the level of debt in the HRA a burden and/or unsustainable in the context of your delivery of new build and regeneration plans?
2. Does your business plan include extensive borrowing for both existing stock investment as well as new build and acquisition?
3. If the sector was successful in getting HRA debt written down or written off, what would be the balance of priorities be for the use of the additional capacity, expressing this as prioritisation between investment into services, the existing stock or into new build and acquisition?
4. In your development programmes, to what extent are you prioritising the delivery of Social Rent homes? What would need to change if you wished to further prioritise and increase Social Rent delivery?

The authorities within the sample are intended to provide a representative view of typologies across the HRA sector:

- London Boroughs: Newham, Ealing, Camden
- Cities/Mets: Birmingham, Sheffield, Wigan
- Unitary Aauthorities: Bournemouth, Christchurch & Poole (BCP), Medway
- Districts: North East Derbyshire, Guildford



We are grateful for the time and input from officers at each of these authorities in providing their insight for this research.

## 3.2 Local authority feedback: five overall themes

### 1. Debt levels and financing costs are a structural constraint

- Debt levels are a major limiting factor, particularly rising interest rates and costs, eroding the capacity and confidence of authorities to extend new build programmes
- However, several authorities noted that debt write-down alone may not be a “silver bullet”
- Refinancing and interest rate risk: a major issue as higher rates erode capacity and refinancing of self-financing loans a key financial risk.

### 2. Shift toward existing stock investment

- Increasing prioritisation of safety and compliance (e.g. building safety, Awaab’s Law), decarbonisation (MEES, DHS), service quality improvements
- In many cases, this is “crowding out” new build capacity.

### 3. Reduced or constrained new build programmes with viability challenges in development

- There are consistent issues in trying to make schemes stack up, driven by high borrowing costs, build cost pressures, need for grant and cross-subsidy
- The key trends therefore include greater reliance on mixed tenure, reduced ability to prioritise Social Rent
- Most authorities reported that they are scaling back development, prioritising regeneration over new build, and only proceeding with schemes that are self-financing or low-risk.

### 4. Tension between Social Rent ambition and financial reality

- Nearly all authorities express a policy preference for Social Rent but face viability constraints forcing compromises on rent levels and tenure.

### 5. Desire for greater financial flexibility

- Debt write-down or restructuring gives the greatest “agency” for local authorities, but this should be seen as part of a wider group of initiatives including: greater HRA flexibilities, stable policy environment, long-term rent policy
- All authorities would be open to a “compact” or “commitment” to deliver new homes if HRA debt were reduced or written off.

# 3.3 Local authority feedback: top 3 issues



## Camden

### High and rising debt burden

- Significant interest costs (£24.5m p.a.) and increasing borrowing costs are constraining delivery and shaping how schemes are structured.

### Development viability and delivery constraints

- Schemes must be phased, smaller, and carefully cashflowed; risk of some not progressing
- Reliance on disposals for existing stock programmes and alternative delivery routes (e.g. JVs, Development Agreements).

### Tension between priorities (stock vs development)

- Strong focus on social rent, but financial pressures limit flexibility
- Increasing regulatory pressures (e.g. DHS/MEES) may push more spending into existing stock.

## Sheffield

### Debt servicing as a major financial pressure

- Interest is the largest expenditure line, impacting capacity

### Desire for greater financial flexibility and local control

- Strong support for debt write-down to increase agency and investment capacity

### Long-term financial uncertainty

- Concerns around rent policy stability and regulatory pressures (building safety)

## Ealing

### Competing priorities between regeneration, new build, and existing stock

- Regeneration is the dominant priority, with tension in allocating funding between priorities

### Economic challenges to delivering Social Rent

- Viability constraints mean mixed tenures are often required despite preference for social rent

### Debt is not the only constraint

- Even with write-off, wider structural viability challenges for new build and regeneration remain.

## Newham

### Growing debt costs and refinancing pressures

- Debt costs rising significantly (towards 22% of income), with high interest rates a major concern

### Shift toward existing stock and services

- Regulatory pressures (in this case following an adverse regulatory judgement) are pushing prioritisation toward stock and services over new supply

### Limited capacity for new build

- Development constrained unless schemes are self-financing; focus shifting to regeneration and replacements.

# 3.4 Local authority feedback: top 3 issues



## Wigan

### Debt burden and refinancing challenges

- Rising borrowing costs (interest rates now above c.5.4%) and long-term debt commitments

### Reduced rental income vs expectations over time

- Significant historic loss of income due to rent caps/cuts affecting capacity (loss of rent c. £30m)

### Limited development programme

- Very small new build pipeline; priority is existing stock (e.g. sheltered housing), though ambition exists and prepared to deliver on programmes if that was part of the deal on debt write-down

## Birmingham

### Scale of debt and financing costs

- Very large debt (£1.3bn+) with significant annual servicing costs.

### Strong prioritisation towards existing stock

- Political and operational focus on improving and maintaining current homes; contrasts with previous focus towards direct delivery of new homes.

### Limited new build (shift to acquisition)

- Development constrained; instead, acquiring stock; regeneration investment via Development Agreements with some buy-back

## North East Derbyshire

### Debt and refinancing pressures increasing over time

- Rising borrowing costs (up to c. 5.5–6%) and perception of debt as a “millstone”

### Viability challenges for new build

- Difficulty making schemes stack up, leading to reduced delivery

### Regeneration cost pressures

- High cost of regeneration requiring densification; affects prioritisation vs straightforward new build

## Guildford

### Debt constraining wider investment capacity

- Limits ability to invest in services, estate quality, and so-called “non-essential” improvements

### Balancing investment priorities

- Tension between stock improvement (Asset Management Strategy/MEES), regeneration, and new build

### Viability challenges (particularly for Social Rent)

- Affordable rent more viable; infrastructure and additionality constraints limit regeneration

## 3.5 Local authority feedback: top 3 issues

### **BCP Council**

#### **Rising cost pressures are undermining financial stability**

- Although current debt is relatively manageable (£127m total, largely low-rate legacy from self-financing), cost pressures are increasing rapidly including repairs and maintenance inflation, and growing staff and compliance costs

#### **Mounting investment demands from stock condition and regulatory pressures**

- Key pressures arising from damp, mould and condensation and other compliance issues, ambitious Net Zero targets alongside ambition new homes delivery needs

#### **Significant pressures arising from waiting lists and homeless, temporary accommodation**

- Up to 80% of all new lets to homeless/TA households – also potentially impacting communities; the need for more social rented homes is significant and would prioritise new homes investment with increased capacity

### **Medway**

#### **High costs associated with existing stock driven by energy efficiency needs**

- Business plan therefore incorporates year on year growth in debt alongside new build/acquisition delivery

#### **Actively pursuing options to grow**

- Ambitious authority keen to use capacity to grow net stock over the long-term as a strategic priority

#### **Social rent is a key focus**

- Release of capacity would lead to a prioritisation of new homes

## 3.6 Local authority case studies: releasing capacity



For illustration, we have applied our analysis to the sample of ten local authorities and the tables opposite highlight key findings as set out below.

For these ten authorities in total, debt in 2025 is broadly the same as it was in 2012, although both Birmingham and BCP (which is a combination of the former Bournemouth and Poole HRA authorities) have reduced their borrowing and Ealing and Camden have increased their borrowing.

Our estimate of how the debt write-off options apply to each authority are necessarily broad brush as we do not have access to the detailed investment profiles for building safety and net zero carbon for every authority.

We have also used the 2012 debt settlement amounts for write-off for these estimates to illustrate broad delivery potential. As current debt now exceeds the level of the debt settlement across the HRA sector, if debt is not written off entirely, a mechanism would need to be found to allocate debt write-off at the individual authority level.

Based on an average write-down, the potential for new build could vary between 8-10,000 new homes at Birmingham and c.300 additional new homes at Medway.

Whilst, to an extent, all authorities engaged within this project have indicated that they would prioritise the use of additional capacity towards the safety and quality of the existing stock, as the debt write-off estimates would ensure that reduced debt would be sustainable for HRAs in delivering investment for their existing stocks, the estimates of new build delivery potential can be taken as true minimum delivery potential.

It is emphasised that these estimates are based on social rented homes – a priority for all of our ten engaged authorities, and there would be associated implications for grant funding or other forms of subsidy in order to deliver homes at these numbers.

Authority	Debt 2025 (£m)	Properties 2025	Debt/unit (£)	2012 Settlement (£m)	Debt 2012 (£m)	Change in debt 2012-2025 (£m)
BCP	132,703	9,571	13,865	155,869	157,437	-24,734
Birmingham	1,070,925	58,270	18,379	1,045,283	1,135,701	-64,776
Camden	477,326	23,201	20,574	516,150	438,298	39,028
Ealing	213,906	11,602	18,437	195,214	149,449	64,457
Guildford	199,205	5,305	37,550	194,846	196,434	2,771
Medway	42,829	3,019	14,186	45,846	41,157	1,672
Newham	167,624	16,270	10,303	247,624	165,757	1,867
North East Derbyshire	171,347	7,508	22,822	178,152	167,513	3,834
Sheffield	345,779	38,397	9,005	386,792	345,773	6
Wigan	314,248	21,362	14,711	353,625	318,067	-3,819

Authority	Option 1a - debt write-down	Option 2a - debt write-down	Option 1a - est supply potential	Option 2a - est supply potential
BCP	117,645	155,869	1,163	1,540
Birmingham	788,948	1,045,283	8,216	10,885
Camden	389,574	516,150	2,761	3,658
Ealing	147,342	195,214	1,044	1,384
Guildford	147,064	194,846	1,224	1,622
Medway	34,603	45,846	288	382
Newham	186,899	247,624	1,325	1,755
North East Derbyshire	134,464	178,152	1,396	1,850
Sheffield	291,939	386,792	3,115	4,127
Wigan	266,906	353,625	2,956	3,916



## Conclusions and recommendations

# 4.1 Conclusions

1. The original HRA self-financing settlement has been undermined by successive adverse policy interventions including cuts to rents, rent caps and the introduction of higher safety and quality standards – none of which were provided for within the original settlements.
2. Recent policy initiatives such as confirming rent increases at CPI+1% and reintroduction of rent convergence have improved financial capacity, but these barely move the dial in terms of the impact of the previous adverse changes.
3. The level of HRA debt is unsustainable for authorities to deliver on all of their commitments; there is little or no capacity to support the ability for local authorities to contribute meaningfully to the government’s target of 1.5million new homes and therefore to enhance the delivery of social rent homes.
4. Depending on the approach to modelling the impact of these changes in policy and standards into the original settlement, correcting for these changes would imply reducing debt by around £21.6billion (this compares to the £31.8billion held within HRAs at March 2025), including recognition of a requirement to deliver net zero carbon across the HRA stock.
5. If it is assumed that current and future standards (Fire and Building Safety, Decent Homes, MEES along with the additional services pressures) applied in the original settlement, this would imply a reduction of debt in excess of the £31.8billion debt currently held by authorities – in other words a complete debt write off compared to the original settlement.
6. Feedback from local authorities engaged within this research highlight five key themes:
  - Debt levels and financing costs are a major limiting factor for investment, exacerbated by rising interest costs and refinancing risks
  - There has been a shift towards investment in the existing stock with increasing prioritisation of safety and compliance
  - Authorities have reduced or constrained new build programmes with viability challenges in development, and the increasing complexity of regeneration schemes
  - Whilst there is universal ambition to deliver social rented homes, there is tension between ambition and financial reality
  - There is a desire for greater financial flexibility with debt write-down giving the greatest “agency” for local authorities.
7. When seen in the context of what authorities are required to spend compared to the resources available in business plans, a complete write-off of debt might offer the optimal route to ensuring that standards are met for the existing stock whilst creating capacity for new build delivery; such a write-off would release and unlock borrowing capacity and could enable the delivery of over 280,000 additional new social rent homes, a figure which would provide the basis for further future additional delivery as the stock was added to.
8. The Government should explore an approach in which local authorities are offered an incentive via a “compact” or “commitment” to deliver new homes if HRA debt were reduced or written off.

## 4.2 Recommendations

We have identified the following recommendations for action

- Government should commit to the write-off of all Housing Revenue Account debt – this is consistent with the principles of the self-financing settlement; only a complete write-off enables local authorities to deliver the investment needed within the existing stock and unlocks the capacity and potential to deliver new social rent homes at scale and make a contribution at scale to the Government’s 1.5million homes target.
- Establish a Housing Delivery Compact linking debt write-off to new delivery.
- Maintain and potentially significantly enhance capital grant programmes for local authorities, especially to support the delivery of new social rent homes.
- Government to consider reform of the fiscal rules to support local authority housing investment.
- The Government should commit to long-term rent policy certainty, which is critical for local authorities to unlock investment into new social rent homes.

## Appendix: technical supporting data

- A1 - Inputs and assumptions
- A2 - Note on Fiscal Rules
- A3 - HRA Self-Financing Settlement background
- A4 - Potential impact of Local Government Reorganisation

# A1 - Schedule of Assumptions

- The tables schedule all relevant assumptions in our modelling exercise
- Table 1 highlights the core assumptions used in modelling debt write-down options and scenarios – specific scenarios are modelling per the assumptions and inputs listed within this report at section 3.
- All debt modelling is undertaken on a “real terms” basis with all income and costs deflated to the 2012 price base from the original settlement – a factor of 47.7% from 2012 to 2025
- Table 2 sets out the assumptions applied in determining the potential for released capacity to deliver new social rent homes
- The regional estimates for delivery costs are supported by evidence provided by Savills’ development teams across the country as at Q1 2026, suitably rounded for modelling and illustrative purposes
- Target rents have been estimated (and rounded) based on actual rents reported in financial statements in 2024/25 with the addition of increases for 2025/26 (2.7%), for 2026/27 (4.8%) then adding a factor to represent convergence (5% average) and then a further 5% tolerance for general needs rents allowable under the Rent Standard.
- Borrowing potential is computed on the basis of an interest rate of 4.0% which reflects the compound average of prevailing interest rates in the HRA nationally

TABLE 1	Original 2012 settlement	Our modelling
<b>Settlement assumptions</b>		
Number of properties	1.664m in 2012 1.591m in 2025	1.551m in 2025
Rents	RPI+0.5%	CPI+1% to 2036
	Convergence to 2015	Convergence from 2027
		Rent cut 1% nominal 2016-2020
		Rent cap 7% 2023
Service charges	Assumed neutral in/out as per original settlement	
Management & Maintenance	Increases RPI only	Increases CPI+0.5%
Major repairs	Increases RPI only	Increases CPI+0.5%
		Added standards and inflation – see text
		Business plan totals +/- NZC – see text
Discount factor	6.5%	6.5%

TABLE 2	Target rent	Marginal operating cost / unit	Net Operating Income / unit	Borrowing potential / unit	Delivery cost	Implied grant requirement / unit	HRA debt 31/3/25 (£m)	Pro-rated debt per £1bn (£m)
Region								
London	160.00	2,676	5,644	141,094	440,000	298,906	9,880	310
East	134.00	2,329	4,639	115,971	350,000	234,029	4,019	126
South East	138.00	2,371	4,805	120,130	350,000	229,870	4,170	131
South West	118.00	2,088	4,048	101,198	350,000	248,802	1,413	44
East Midlands	112.00	1,972	3,852	96,307	230,000	133,693	2,670	84
West Midlands	115.00	2,139	3,841	96,031	250,000	153,969	3,900	122
Yorkshire & Humber	108.00	1,867	3,749	93,726	230,000	136,274	3,138	99
North West	110.00	2,108	3,612	90,308	230,000	139,692	1,240	39
North East	111.00	2,011	3,761	94,017	230,000	135,983	1,422	45
<b>National</b>	<b>130.00</b>	<b>2,250</b>	<b>4,510</b>	<b>112,750</b>	<b>290,000</b>	<b>177,250</b>	<b>31,852</b>	<b>1,000</b>

Sources: 2012 HRA debt settlement model; Savills analyses of 2024/25 financial statements, sample of HRA business plans 2026/27; investment needs and development costs

## A2 - Context of fiscal rules

For many years, the housing sector (and CIH in particular) have argued for the adoption of alternative fiscal rules that would bring the treatment of HRA borrowing closer to the systems operated in other European countries.

We have reviewed the findings of our research in the context of the fiscal rules currently in operation for the UK.

In key summary:

- The UK's fiscal rules influence government capacity to support social housing investment - particularly through capital grant, revenue subsidy, and local authority borrowing
- Fiscal rules materially shape housing investment capacity, not by directly constraining housing providers, but by limiting total government borrowing
- Recent changes brought in by the new government post-2024 provide indirect but limited benefits, mainly by creating marginal additional borrowing headroom
- More fundamental reform (e.g. net worth-based rules or investment-focused frameworks) would significantly improve the outlook for housing investment, but these options are often felt to be politically and technically challenging.

Traditional measures (Public Sector Net Debt - PSND, and now Public Sector Net Financial Liabilities – PSNFL) treat most housing investment as increasing public debt, whether through grant funding or local authority borrowing - this creates a disincentive for up-front capital investment, particularly grant-funded development – a further example being the inability for local authorities to apply for the low interest loans programme run by Homes England.

The move from PSND to PSNFL allows financial assets (e.g. loans) to offset borrowing, creating additional fiscal headroom, however it does not directly favour housing investment within local authorities, as housing assets are not treated as financial assets. The benefits to local authorities are instead indirect, through increased overall borrowing capacity for central Government (e.g. enabling the increase in the social and Affordable Homes Programme - SAHP). There is a corollary in the government's low interest loans initiative which is not being made available to local authorities as it is for housing associations for this reason.

Therefore, the removal of limits on HRA borrowing has not fully unlocked development, and means that the impact of any write-off or write-down in HRA debt to release capacity to invest further via new borrowing would be constrained. As an example, a shift to Public Sector Net Worth (PSNW) would:

- Allow borrowing for investment to be offset by the value of created assets (e.g. housing)
- Strongly incentivise capital investment in housing and infrastructure

Despite its potential:

- The approach has not been adopted by government
- Key barriers include difficulty in asset valuation and perceived market risk – though when approached, market commentators have not generally disputed the benefits
- PSNW represents the most transformative option for housing investment.

**Alternatively, as council housing sits within public corporations, not general government borrowing, this creates the potential (under alternative PSNW frameworks) to separate housing debt from core fiscal measures and therefore link borrowing for investment in new homes without the requirement to increase national net borrowing.**

## A3.1 - HRA self-financing debt settlement: background



- Until 2012, Housing Revenue Account revenue and capital finance was tightly controlled within the (then) HRA Subsidy System.
- In its final form, the subsidy system had been introduced following the 1989 Local Government & Housing Act – the Act which ring-fenced the HRA within the General Fund.
- Whilst stringent capital controls introduced within the 1989 Act had been relaxed, particularly after 2004 and the introduction of the Prudential Code, the revenue subsidy system remained in place to capture surpluses generated by council housing operations, and preventing them being utilised to finance extensive prudential borrowing
- Other key reforms to the HRA system prior to 2012 included:
  - The implementation of rent restructuring from 2000/01, a process which aimed to raise local authority rents up to the same level as housing associations whilst introducing a new formula for social rents.
  - The removal of revenues and expenditure related to housing benefits from the HRA in 2005.
- The subsidy system comprised a “shadow” HRA for every authority that was calculated based on formulae for guideline rents, cost allowances and financing costs related to HRA debt; HRA debt in the “shadow” system was based on an accumulation of all previous allowances provided by the government to take on borrowing.
- Each shadow HRA led to an amount of subsidy payable to or from each authority. If an authority had guideline rents of (say) £100m and total cost allowances of (say) £120m, the system would pay £20m in subsidy to that authority; if on the other hand an authority had guideline rents of £100m and cost allowances of £75m (say), they would be required to pay £25m of “negative subsidy” into the system. In effect the system was a national system designed to redistribute rent income around the country, with local HRA authorities not in control of the resources available to them for spending (authorities might for example put rents up £1 but only get to keep 50p of the increase).
- The formula for the subsidy “shadow” account had been reformed over several iterations and was a complex method of redistributing rent income between authorities according to spend need; there were always authorities which paid into the system and those that received subsidy; in that sense it was an anachronism as most of government expenditure had moved away from similar “micro-management” fiscal distribution mechanisms
- Many of those authorities which had been in “negative subsidy” had transferred their stock to housing associations; the system was one of the key drivers for transfer as it came under significant criticism for diverting tenants’ rents to be spent elsewhere
- In the run up to 2012, the entire subsidy system began to move to overall surplus - primarily due to higher rent increases as a result of pushing rents to increase to meet new formulae related to housing association averages (a process of rent convergence), and gradually reducing debt levels as receipts (especially from the Right to Buy) were applied
- The self-financing settlement was seen as a means to place HRA funding on a sustainable local footing, preventing annual swings in subsidy levels, and to avoid future stock transfers through a similar mechanism of converting future rental surpluses into a level of debt that could be sustained by authorities over the long term
- The settlement was closely linked to the delivery and ongoing maintenance of the Decent Homes Standard – as a fundamental matter of principle, if localising financing, the allowances utilised within the calculation had to be at a level which enabled authorities to meet and maintain standards in managing their finances locally
- For that reason, following an extensive review process which began in 2009; the settlement provided for an increase in allowances in the calculation when compared to the final year of the subsidy system – 5% for management and maintenance and 28% for the Major Repairs Allowance

## A3.2 - HRA self-financing debt settlement: the basis

### Key principles

- The fundamental principle of the settlement was that it was based on “maintenance” of the Decent Homes Standard (DHS)
- The DHS had been introduced in 2000 and was originally aimed to be achieved by 2010 – although authorities with later round ALMOs received additional funding to achieve the target beyond that date and beyond the date of the 2012 settlement
- The starting point therefore was that the DHS had already been achieved, and where it had not been, additional funding was still made available to some authorities
- There were therefore no provisions for stock improvements provided for within the settlement
- As net rent income increased, authorities would have the capability to use rental surpluses towards different elements of expenditure, services, stock improvements, new build or regeneration – without them being captured and being paid to government
- In order to prevent rental surpluses being utilised to finance extensive new borrowing programmes, a key principle of the settlement was the implementation of a debt cap – this was initially set at a level which was the same as the settlement debt hence significantly limiting headroom for new borrowing, subsequently abolished in 2018
- A further principle was a recognition that if public policy changed significantly affecting the application of the key assumptions, there was scope to reopen the settlement

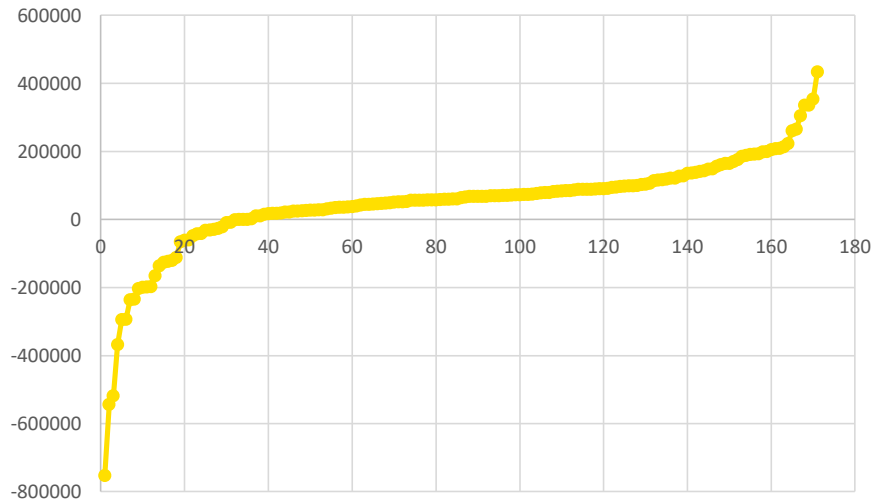
### Key components

- An assumption of Right to Buy sales was made in the settlement – this was linked to the 3 years of experience in the run up to 2012 – RTBs were at a historically low level as a result of caps on discounts introduced in 1999 and reduced further in 2003
- Guideline rents would converge to formulae/target rent by 2016 – this was a key assumption in that it envisaged high real terms rent increases in the first 4 years post-settlement
- Rents were increased by 0.5% pa in real terms – at the time, the core inflation measure driving guideline rent increases was RPI (not CPI), thus the implied settlement level was at RPI+0.5% annually; no real increases were applied to management, maintenance and major repairs allowances – the real terms differential between income and operating costs was therefore 0.5% annually
- Management and maintenance allowances increased 5%, Major Repairs Allowance by 28% - with no fundamental redistribution of allowances between authorities
- The settlement calculation recognised Disabled Facilities Grants as an expenditure allowance for the first time
- Partly as a result of some bank debt being available at lower rates than PWLB rates at the time, the government also provided a significant interest rate discount to encourage settlement debt to be taken out with PWLB
- Other technical elements were provided for, including any outstanding debt premiums, adjustments for PFI credits, and a small element for debt management
- The discount factor used to convert future net surpluses into a 2012-debt amount was 6.50%

## A3.3 HRA self-financing debt: summarising the settlement



Distribution of debt plus/minus



- The total debt settlement as calculated by the NPV of future net rental surpluses was
  - £29.188 billion
- The existing debt (as measured within the subsidy system to 2012) was
  - £21.120 billion
- Local authorities therefore took on net extra debt of
  - £8.068 billion
- There were 169 authorities included within the debt settlement, of these...
- 136 took on additional debt
  - Most authorities took on a significant additional amount, necessitating new loans benefiting from the discounted PWLB rate
- 33 had a debt reduction
  - Government wrote off loans totalling the amount of the reduction; these authorities did not benefit from the low interest rate on new debt but they were able to identify specific loans that would be redeemed on the settlement date.

- Generally speaking, notwithstanding the movement in debt and net debt take-on, authorities were much better off following the settlement
  - For example, negative subsidy of £4m pa might be replaced with interest costs on new debt of less than £2.5m pa
- However... following extensive preparations for March 2012, the government subsequently announced the “reinvigoration” of the Right to Buy with much increased discounts – this immediately undermined the basis for the settlement as authorities would likely have fewer properties generating net income than envisaged in the calculation

The nature of lending and debt taken varied between authorities.

- Some authorities took on a low-cost single loan over a long period on a maturity basis.
- Other authorities took on a basket of loans with different maturity periods which reflected the capability for the new business plan to pay down debt over time thereby releasing additional capacity over time.
- All new loans taken on were with the PWLB, and whilst there remain a small minority of loans taken out with private providers (banks and other lenders), for the purposes of HRA business planning, all financing costs are treated equally, irrespective of whether actual loans are taken with PWLB or privately.

## A3.4 - Updating analysis for recent policy changes (top down)



Component	£million when estimated in 2024	£million current estimate	Comments – changes since our previously analysis for CIH in 2024
Recast original settlement	<b>28,685</b>	<b>28,685</b>	158 authorities
Revision to rent policy	<b>-10,184</b>	<b>-10,005</b>	Rent cuts and rent cap / offset by rent convergence
Revision for standards	<b>-4,997</b>	<b>-4,997</b>	Unchanged: £5k/property + 10% on MRA 2022 + 10% for DHS2/MEES
Revision for capital repairs inflation	<b>-1,094</b>	<b>-1,389</b>	Unchanged: Generational capital inflation
Consumer standards / Awaabs Law	<b>-932</b>	<b>-932</b>	Unchanged: Regulatory standards/conduct/Awaab's Law
Revision for property numbers	<b>-227</b>	<b>-192</b>	Reinvigoration of RTB - 41k fewer properties in 2024 offset by future restrictions
Speculative consolidated revised settlement	<b>11,251</b>	<b>11,170</b>	
Debt write-down	<b>-17,434</b>	<b>-17,515</b>	<b>Reduced debt write-down as a result of recent policy changes</b>

The table above compares the estimated write-down of debt implied by various policy changes since 2012, incorporating subsequent changes to policy since 2024, the latter covering: the reintroduction of rent convergence and a big reduction in future Right to Buy sales as a result of restricting discounts introduced in November 2024; the table also shows the impact of additional real inflation in capital expenditure to 2036 included to represent the potential for capital costs to continue to outpace core inflation for some time.

### Commentary on the table

The starting point remains a re-based settlement of £28.685billion – 158 authorities were within the HRA system as at 2026/27 and this is the total settlement for them.

The impact of rent policy changes remains the most significant element of this part of the analysis – albeit that the reintroduction of rent convergence from 2027 increases future rent estimates, thereby marginally reducing the debt write-down implied through rent policy changes.

The table reflects the same “generic” approach to “top-down” estimates of changes in standards.

The revision for property numbers is amended to reflect the fact the future Right to Buy sales are likely to revert to the inputs/assumptions that were adopted in the original settlement – with effect from 2024/25 (albeit that there is still a “tail” from the spike of applications in November 2024 prior to the restrictions on discounts being introduced).

A revision for the addition 0.5% real inflation pa to costs for 10 years from 2026 would act to provide some additional resilience within business plans post-debt write-down, noting that there is a risk that if inflation “spikes” as it did in 2022-2024, that government may act to “cap” rent increases (as was implemented for 2023/24).

The overall impact of the changes introduced via rent convergence and Right to Buy restrictions are not material to the overall findings of this element of the analysis.

It is emphasised that the “top-down” estimates in the table above indicate the “order of impact” of the introduction of higher standards for the stock and service delivery; however, we have a growing evidence base informing a more detailed and up to date estimate of the actual costs being provided for within business plans as a result of the extensive number of stock condition surveys that are being undertaken to inform investment plans and to set out what is required to meet these standards.

The main report sets out these financial pressures as they are applying “on the ground” and provide for a more realistic estimate of what actually needs to be done – the reality of future costs are higher than these top-down estimates above and these are reflected in the scenarios shown in the main report.

# A4 - Potential impact of LGR

Local Government Reorganisation (LGR) has the potential to impact around half of HRA authorities in the forthcoming period.

LGR has already applied to range of authorities over the last 10-15 years and there is experience of the “coming together” of HRAs which are instructive for future processes.

Of the 158 authorities with HRAs, 78 are district councils (lower tier non-unitary authorities) which will be subject to LGR.

Whilst some HRA authorities are likely to move into unitary authorities on a one-to-one basis i.e. the only authority that holds stock in the future unitary area, the overwhelming experience will be for two or more HRA authorities to come together into a unitary authority that will have a larger HRA as a result.

Final decisions on the shape of LGR in the future are still ongoing. However, where announcements have already been made (e.g. for Surrey, Essex and Hampshire), we can interpret a direction of travel in terms of the potential future size and shape of unitaries across England.

We estimate that the 78 HRAs within directs today's might become around 35-40 larger HRAs within new unitary authorities.

For completeness, we have made the following comments in respect of LGR for this project and analysis.

Generally speaking, when HRAs come together, they are a simple addition of income, expenditure and HRA debt, subject to the following:

- There may be financial implications that vary the total on a marginal basis, arising from the perspective of the following: corporate and internal recharges, consolidated interest rates from two debt pools coming together, changes in future governance and senior management arrangements; in some cases these may be material depending on circumstances in each case.
- We would not expect future repairs and investment costs to be anything other than an addition of composite HRA totals, certainly in the early years post-vesting.
- Furthermore, the assumptions within this analysis are based on income and costs that were made in 2012 and which we have varied in order to test debt write-off scenarios.
- There are therefore no specific implications of LGR for this analysis other than to note that any decision by government to release capacity through debt write-down would potentially take place following vesting for the new unitary authorities.

This analysis can be readily updated to reflect unitary status at an appropriate time when all LGR announcements and decisions have been made (which is likely to be in the summer of 2026).

The Savills logo consists of the word "savills" in a lowercase, sans-serif font, colored in a dark red or maroon hue. It is positioned within a light yellow square that is part of a larger background of overlapping, semi-transparent yellow and orange geometric shapes.

Thank you

Steve Partridge  
Director and Head of Housing Consultancy  
[steve.partridge@savills.com](mailto:steve.partridge@savills.com)  
07968 354948