




**HRA**

Business Plan

2025



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 Shropshire Towns and Rural Housing

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## 1.0 Executive Summary

This report by Shropshire Towns and Rural (STAR) Housing outlines the current position of the Housing Revenue Account (HRA) and plans for the future. The report considers several factors including the current operating environment, the requirements of current and emerging regulations, changing customer needs, and economic factors that need to be considered when formulating a long-term strategy in relation to the management of the retained housing stock of Shropshire Council.

STAR Housing manage 4096 units on behalf of Shropshire Council. The plan outlines how STAR Housing will increase its borrowing envelope by £52m. To date the council has borrowed £93m against the value of the HRA, the HRA is valued at £243m. This additional borrowing will be used primarily for new build activity and capital investment within the existing stock to ensure Shropshire Council retained housing stock meets sustainability targets and emerging regulatory standards such as Decent Homes 2.

The report considers the maintenance of the Housing Revenue Account (HRA) and stock over the next 30 years, using a comprehensive component led and industry standard approach overlaid with known pressures facing the social housing and public sector industry. Pressures such as increases in national insurance costs, increasing material and labour costs, sustainability and Net Zero requirements, changes in compliance emanating from decent homes plus, Awaab's law and building safety compliance changes, consumer standards and the construction of more specialist social housing. The report considers the need for the HRA to deliver a development programme, to ensure that Shropshire can deliver more social and specialist housing to meet increasing demand.

Industry standard and comprehensive HRA Business Planning tools have been used, such as the 30-year business plan model provided by Abovo Consult, to ensure that all factors that drive the sustainability of the HRA are considered therefore ensuring that the interconnectivity of those factors that drive change are considered together whilst allowing for robust scenario planning so that we are able to consider alternatives and identify potential issues.

## 2.0 Schedule of Appendices

Appendix A – Detailed current and pipeline schemes by tenure, bedrooms and house type

Appendix B – Business Plan Finance Schedules

Appendix C – Financial Planning Principles V2.0

Appendix D – Scenario Planning Comparative Graphs

Appendix E – Savills HRA Review Report – Final

Appendix F – Schedule of Business Plan Assumptions

## 3.0 Summary of approvals sought

- To increase the HRA permitted borrowing envelope from £122m to a maximum of £174m as per the schedules at section 7.0 to fund a new development programme to deliver 509 units in the next five years.
- To relet properties at target rent at the change of tenancy in line with government guidelines delivering additional income of £5.9m over the life of the current plan, the equivalent of

building 50 affordable homes, and allowing us to limit our additional borrowing ask to the maximum of £174m.

- To set HRA budgets in line with the overall programme values as set out in the schedules at section 8.0.

## **4.0 Background**

### **4.1 National context**

Recent government announcements have outlined an ambition for councils to deliver additional social housing through the planning process, partnerships with other housing organisations and direct delivery. There have also been several policy changes related to the planning system. These changes will support councils in delivering additional housing and potentially more affordable housing.

Furthermore, there have been several previewed announcements related to housing in the Government's budget. This includes a long-term rent settlement, additional grant funding for affordable housing, lowering borrowing rates for housing revenue accounts to build more homes, and changes to the Right To Buy (RTB) scheme.

### **4.2 Local context**

The delivery of a range of housing types which will meet unfulfilled housing demand within Shropshire remains a key strategic objective within the Shropshire Plan. In recent years, Shropshire Council, in partnership with STAR Housing, has delivered a number of affordable housing schemes, including several temporary housing schemes.

In total STAR Housing and the Council is currently committed to delivering 223 affordable rent homes, 120 shared ownership homes, 139 social rent housing and 47 temporary accommodation units. These homes are scheduled to be delivered by summer 2026. These homes will be delivered through existing borrowing within the HRA, Homes England grant funding and council grant funding. If no further funding were to be made available then current pipeline aspirations, explained in further detail later in the report, could not be delivered.

The HRA has borrowed £92m to date from an already authorised borrowing envelope of £122m to fund existing capital commitments on existing homes. This includes £4m investment in housing safety measures and ring fencing £36m to bring all HRA homes up to an EPC C by 2030. The latest full stock valuation was carried out in early 2024 and the stock has an existing use value of £243m. Historically STAR Housing has under invested in the capital programme, with an average expenditure of £5m per annum. During 2024/25 STAR Housing will deliver close to £8m investment in the stock and will be looking to increase that value for 2025/26 to over £10m per annum.

The local context for the delivery of more affordable housing has become more complex as many local RPs reconsider their business plans and reorientate their investment into existing homes. Further, there have been several mergers in recent years, resulting in RPs having more diverse areas of operations, taking time to consolidate operational areas and a requirement to build homes across a larger geographical area. Whilst Shropshire has a great track record of delivering more affordable housing, these pressures may result in a dip in the number of affordable homes being built in the future and could result in less specialist homes constructed.

In planning for the future STAR Housing, in partnership with Shropshire Council, has also considered alternative options for the retained HRA stock. This includes the sale of the stock to another

provider. The advice and valuation received identified that due to the amount of HRA debt associated with the self-financing model and assumptions around future investment the value of the stock is in the region of minus £8 million. This is therefore not a viable option for the HRA stock.

## **5.0 The 30-year HRA Business Plan Model**

It is a requirement of the Management Agreement between STAR and Shropshire Council that STAR Housing produces and maintains a 30-year Self-financing HRA business plan. During 2023 STAR Housing invested in a HRA Business Planning financial model to improve Business Planning capabilities. The chosen model is supplied by Abovo-Consult and is an industry standard model for HRAs.

Abovo-Consult is an independent consultancy providing high quality, sophisticated business planning solutions and consultancy advice to social housing providers, both local authority and housing associations. Abovo's work is also recognised by the Regulator of Social Housing (RSH) and Abovo has acted as advisor to the Government in both the stock transfer and self-financing fields and worked closely with the RSH, CIPFA and DLUHC. The organisation also supports clients with responses to proposed national policy changes.

STAR Housing has developed the Abovo model over nine months in partnership with Abovo advisors and with Shropshire Council through individual meetings but also through the work of the HRA Business Plan working Group which was established under the approval of the Council's Asset Assurance Board (AAB). The HRA Business plan figures are presented within this document for approval in their entirety through the necessary STAR Housing and Shropshire Council boards, advisory boards and decision-making bodies.

Property and housing finance experts Savills have conducted an external validation exercise on the Abovo HRA business plan. They recognise the plan as industry standard, cohesive and a robust approach to managing HRA finance. Savills initially conducted their review in October 2024 and as a result a number of the assumptions were adjusted for the final version of the HRA Business Plan to make it more robust. A schedule of assumptions is included at Appendix F setting out the current HRA business plan assumptions which align better to expectations as set out by Savills in their report.

In producing a plan which has been rigorously tested and externally valued STAR is confident it can put forward a sustainable financial plan for the HRA for the long term that all relevant parties can sign up to, thereby enabling STAR Housing to drive forward with several important programmes for the management, maintenance and development of the HRA housing stock. The financial details of these programmes are shown in detail at section 8.0.

The plan as presented in this document proves that the collection of programmes put forward is financially sound, robust and sustainable for the HRA in the long term as the plan meets a range of golden rules. These golden rules are determined by industry standards and agreed at an early meeting of the Business Plan Working Group. They are listed below.

- 1.25% interest cover – The HRA can service its interest debt by at least 1.25 times during the life of the plan.



- HRA Surplus – A minimum level of surplus of £250 per property is retained to mitigate against unforeseen impacts on the HRA operating account
- Gearing/Loan to Value Ratio – Ensures headroom is maintained in borrowing capacity to form a ‘security’ perspective in line with the sector norm.
- No repayment of Right to Buy Receipts – Indicator that new development units are offsetting RTB disposal to maintain stock numbers and no receipts are having to be returned.

NB: Whilst not strictly necessary for the robustness of the plan an additional measure has been put in place whereby a cap is placed on reserves such that a minimum level is maintained to satisfy the ‘5-year test’ that Shropshire Council requires to approve individual projects. This ‘project level contingency’ assumes that each individual project should be charged with carrying at least 1 times the interest cover value before it can pass the viability test, rather than relying on the overall HRA being able to support delivery of the project through its own contingencies. This is applied in addition to the measures set out above. It should be noted that this inevitably increases the borrowing requirement.

Viewing HRA Finance planning in this holistic 30-year manner is an industry standard in considering a HRA or a Registered Providers Business Plan. However, for Shropshire Council this is a departure from previous methods of approaching the management of HRA finances. In the past, measures of allocating individual fund types to specific expenditure types has been applied on a project-by-project basis and project assessment has only considered the short term. This has resulted in a limited view on HRA activity and could ultimately result in short term decisions being made which could have long term consequences associated with the financial viability of the HRA. The new business plan tool allows for a greater insight into HRA finance and leads to more comprehensive view. Complex scenarios can be run through the plan to quickly understand the impact and sensitivity of a range of factors from policy changes, changes in wider economic indicators and the reprofiling of key programmes. This inevitably leads to a more flexible application of funds (with relevant fund restrictions still firmly adhered to) and a clear view over the long term.

The financial schedules emanating from the plan are shown in detail at section 9.0 and once approved will directly inform operating budgets for the HRA, the Housing Capital Programme and STAR housing for 2025/26 and indicative budgets for future years though these will be refreshed and represented in the next annual iteration of the business plan.

In summary the key programmes put forward for approval are shown below:

- *Development Programme* – A key element of maintaining a sustainable HRA is to invest in increasing stock levels. This plan proposes an increase of the current development programme and in turn an increase of the existing borrowing envelope from £122m to £174m. This extra investment will deliver a further 391 homes through acquisition and new build over the next five years. This is in line with the requirements of STAR Housing’s Development and Investment Strategy which pledges to deliver 225 homes by the end of March 2027.
- *Major Repairs Programme* – This is informed by the Property Investment Plan (PIP) which is described in detail elsewhere in the report and amounts to investment in stock of £69k per

home over the 30-year time frame (this includes sustainability). This is in line with industry standards for investment in existing homes and has been validated by sector experts Savills.

- *Sustainability Investment* – The plan incorporates £36m of funding to bring properties up to EPC C over the next three years. There is an assumption that this is partially funded (£15m) through the Government's Social Housing: Warm Homes Fund - Wave 3.

No changes to the structure of the STAR Management and Works fees are proposed and capitalisation of key staff into the HRA is assumed in line with existing and contractual arrangements.

## 6.0 Key Plan Components

The primary purpose of presenting the HRA business plan is to secure an increase in the approved borrowing envelope to fund new development and keep the HRA on a sustainable footing. However, it is helpful to understand the other major components of the plan to appreciate the context of how Housing finance is managed and the fact that the programmes are all intrinsically linked. The paragraphs that follow set these out:

### 6.1 Income

The plan assumes that rents will increase by CPI+1% throughout. This is in line with sector assumptions and emerging Government policy.

### 6.2 Target Rent

Another key aspect to the sustainability of the HRA surrounds the management of income. The largest majority of HRA income derives from dwelling rents (95%). Rents are initially set at Target Rent at the point of first let. Target rent is based on a formula prescribed by government and incorporates factors such as inflation, local market rents and rent cap levels. After the initial rent setting exercise rents are then uplifted annually by a percentage relative to CPI inflation thereafter regardless of any change of tenancy.

It has been common practice in Shropshire to date to relet properties at the prevailing rent, as it was initially set plus inflation, therefore missing the opportunity to reset to target rent. The effect of this policy is to create a drag on overall income levels to the HRA. This business plan assumes that this practice will become redundant and therefore approval is sought for all relets to be realigned to Target Rent in line with the government's prescribed formula. It has been measured that over the current 30-year lifetime of the plan this change will generate £5.9m of additional revenue decreasing the pressure on the HRA and ensuring a lower borrowing ask of £174m. It should be noted that affordability assessments are carried out at the point of letting and 48% of Council tenancies attract some level of either housing benefit or universal credit to fund their rent.

### 6.3 The Property Investment Plan (PIP)

The PIP is the driver of the capital programme in terms of planned repairs and improvements. Significant work has been undertaken on the plan in 23/24 to ensure that it accurately sets out what the organisation must, should and could do to efficiently manage and maintain the property portfolio, and a structured review and update programme is in place to ensure that it reflects and responds to organisational activity, market conditions and sector best practice. Elements of the PIP

are now categorised as statutory and non-statutory items, enabling greater visibility of the essential investment ask, and flexibility to reprofile the programme with an understanding of the consequences of doing so. Further the PIP has been externally validated by Savills demonstrating that the level of investment and assumptions used are in line with industry standards.

#### **6.4 Sustainability – Government Wave Funding Assumptions**

One of STAR's Asset Management Strategy's (AMS) five themes is energy performance. This sets out the aim that Shropshire Council's homes will be efficient to operate and maintain so that that customers can enjoy warm homes economically. STAR has committed to increasing the proportion of the housing stock which achieves EPC C from 52% to at least 75% by the end of the plan in 2027, with all stock achieving EPC C by 2030 as per the government target expected to be brought in as a statutory minimum following consultation later this year or early next year.

To achieve these aims STAR has already been successful in two rounds of Social Housing Decarbonisation Fund (recently rebranded as Warm, Homes: Social Housing Fund) bidding, securing £1.1m match funding to upgrade around 150 properties to an EPC C. Now closed for applications, STAR has submitted a Wave 3 bid that will result in the majority if not all of the stock achieving EPC C. With funded works taking place between April 2025 and March 2028 and an estimated project cost, including oncosts, of £36m (requiring circa £15m investment from the fund and £21m from the HRA), this is an ambitious project, but arguably an essential one given that SHDF Wave 3 is the final expected wave in the programme and currently represents the best opportunity for STAR to attract funding to support sustainability aims.

#### **6.5 Net Zero**

Against the backdrop of the UK government setting a goal of net zero by 2050, the housing sector will need to eliminate virtually all emissions from existing homes through the retrofit of energy efficient measures. A retrofit hierarchy is essential for the success of a longer-term retrofit programme (whilst structured, it is flexible to a degree to align with planned capital budgets). Fabric improvements are the first step in that hierarchy. STAR planned programmes are already in place for elements such as roofs and doors, with a planned window replacement programme being introduced from 2025. The second step is installation of low carbon heating such as heat pumps. A limited number of these have been installed in STAR-managed properties, with more in delivery and planned through Waves 2 and 3. STAR is also undertaking some third step activities through the installation of low carbon energy generating solar PV. The final step in the hierarchy is offsetting, in which STAR is yet to commence activity.

STAR is therefore working towards net zero, but achievement of that aim will be challenging. Whilst the impact of net zero has been modelled previously within the PIP, the current Business Plan does not include the total investment required to achieve net zero across the stock, indeed doing so without assuming significant levels of external funding support breaks the plan. Retrofit assessments are being undertaken across the stock to refine the investment requirement and inform future business planning.

#### **6.6 Right to Buy (RTB)**

The plan assumes a Right to Buy loss rate of 42 units in 2025/26 with a reduction to 7 units per year after that. Right to buy losses have fluctuated over recent years with wider economic factors such as increased interest rate, mortgage availability and covid having different impacts on tenants' ability or desire to make applications. The most recent and specific change to the regulations on 21<sup>st</sup>



November 2024, whereby the discount rate to be applied to future applications has reduced to £26k, has been reflected in the assumptions. It is expected that this change will greatly impact future RTB requests and the plan expects RTB losses to come down from the higher points we've seen in recent years due to this as well as variations in the economic climate and any other proposed legislative changes. At Quarter 3 of 2024/25 there had been 12 RTB completions with a further 70 requests. Future iterations of the plan will reconsider the likely losses through RTB as the landscape changes.

The plan assumes the full use of Right to Buy receipts to build or acquire new homes which is a key golden rule. If this is not achieved within the government specified timeframe then this could result in RTB receipts being returned to central government. The future of Right to Buy is subject to Government policy and the plan can be amended easily to accommodate any changes.

### **6.7      Voids assumptions**

The plan assumes a void loss rate of 1.5% which is in line with national assumptions. It is a key priority for STAR to keep void loss at a minimum and in line with top quartile performance.

### **6.8      Management Costs**

There are no immediate changes proposed to the management fee and works fee mechanisms however some consideration may need to be given in future years to understanding the impact on management costs as stock levels grow. The management fee level sits at 0.44p of every rent £1. This is in line with sector norms. The works fee is set at £0.797m and includes all staff in the Assets and Development Teams who are involved in delivering capital works as set out in the agreed mechanism.

### **6.9      Debt**

Borrowing in relation to the HRA is summarised below and more detailed profiles are shown in the finance schedules at section 8.0.

	<b>£m</b>
Original 2012 PWLB Borrowing	£83.350
Additional debt	£8.828
Unused but unapproved borrowing envelope	£30.184
Additional borrowing request	£51.405
<b>TOTAL Borrowing Requirement</b>	<b>£173.767</b>

### **6.10    Sewage Treatment Plants**

An amount has been set aside within the plan to address the issue of maintaining sewage treatment plants. This has been a long-standing issue which requires some investment to resolve. The current estimate is £0.355m

### **6.11 Emerging Legislative Changes**

As part of the development of the business plan, STAR Housing has attempted to factor in new and emerging legislative changes, ensuring that all new projects comply with updated regulations. This includes Awaab's Law, Consumer Standards, and the 2021 Fire Safety Act. Furthermore, the plan includes strategies to adapt to future legislative changes proactively,

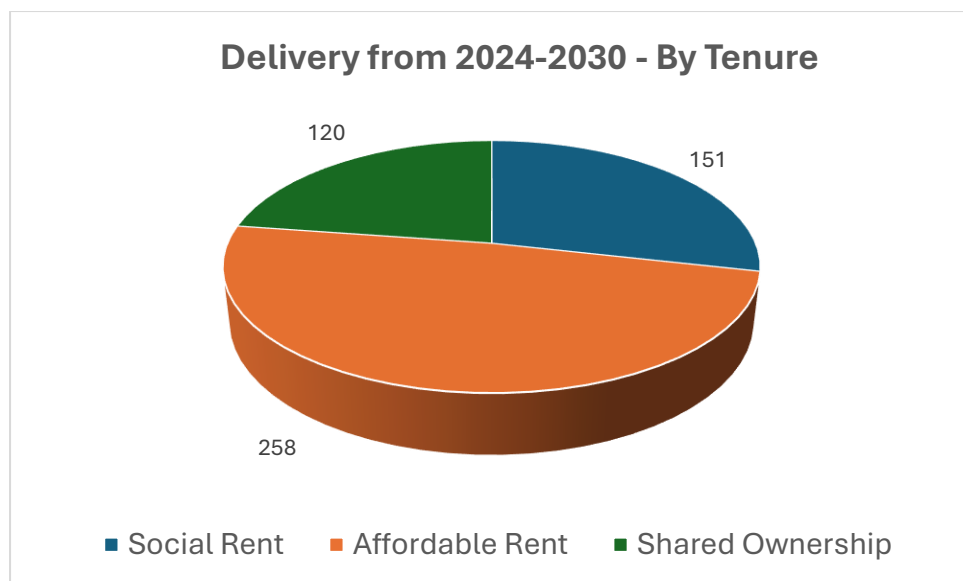
promoting sustainability and compliance. For example, STAR Housing have adopted some of the proposed changes within the Decent Homes 2 consultation document.

In addition to adhering to current legislation, Shropshire Council and STAR Housing are committed to staying ahead of the curve by continuously reviewing and integrating future legislative requirements. This proactive approach ensures that all new developments and existing housing stock meets the highest standards of safety, quality, and sustainability. As a result of this commitment the business plan may be required to be updated in year to ensure any legislative changes are considered and costed.

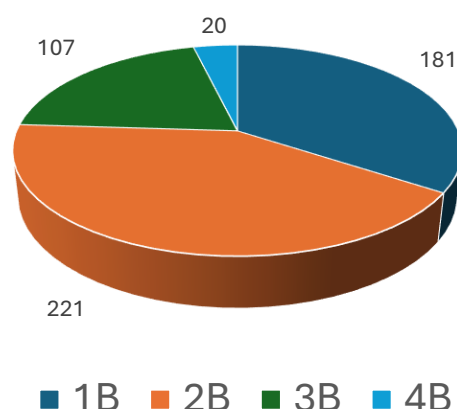
## 7.0 Development Programme

### 7.1 Tenures and House Types

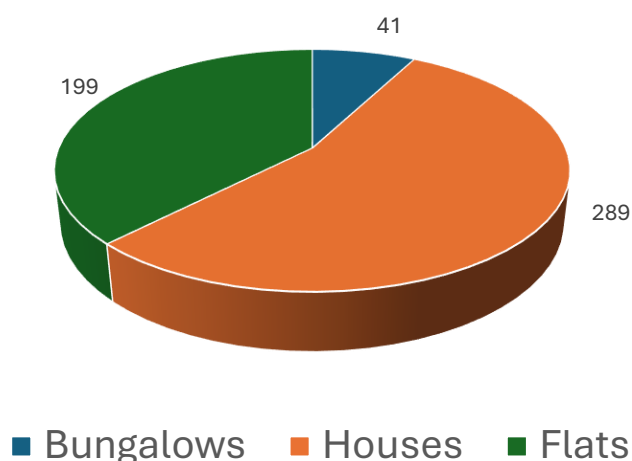
Building on STAR's affordable housing delivery to 2027, and commitment to deliver 225 affordable homes including 75 specialist homes as referenced above, by 2030, the pipeline is illustrated below by tenure, number of bedrooms and house type. The pipeline reflects Shropshire Council's current affordable housing need as captured in Shropshire's Local Plan 2016-2038, specifically planning policy via supplementary planning document (SPD) for affordable housing. The pipeline also addresses delivery through additionality over and above the policy requirement of 10, 15 or 20% affordable housing provision, depending on the location of the development. Appendix A shows the full detail behind the graphical representation that follows.



**Delivery from 2024-2030 - By Number of Beds**



**Delivery from 2024- 2030 - By Housetype**



The STAR Development and Finance teams have devised an internal triage and approval process for identifying suitable new developments. The process captures general housing need and demand and reflects the emerging findings of an independently commissioned housing needs assessment for supported accommodation by Housing LIN, due for release imminently.

Table 1.0 below shows the criteria against which new developments will be approved in terms of scale, geography, house type, tenure, procurement (Build) type and sustainability requirements.

**Table 1.0 – STAR Housing internal triage criteria for new development approval**

Procurement Type	Procurement Type 1 GREEN	New Build, S106, Additionality
	Procurement Type 2 AMBER	Regeneration, Buy-Backs
	Procurement Type 3 RED	Open Market
Location	Priority Area 1 GREEN	Shrewsbury, Oswestry, Bridgnorth Minimum x1
	Priority Area 2 AMBER	Ludlow, Ellesmere, Wem, Ifton Minimum x1
	Priority Area 3 RED	Whitchurch, South West County, Market Drayton Min x10
Lettings/Sales	LS Priority 1 GREEN	Yes

	Abort Opportunity RED	No
House Type	Priority Type 1 GREEN	1 Beds, M4(2), M4(3)
	Priority Type 2 AMBER	General Needs 1 Bed & 4 Bed
	Priority Type 3 RED	
Tenure	Priority Tenure 1 GREEN	Adult & Children Social Care; Temp Accom; Specialist, Social Rent
	Priority Tenure 2 AMBER	Affordable Rent/Shared Ownership
	Priority Tenure 3 RED	
Sustainability	Priority Sustainability 1 GREEN	Future Homes Standard/Zero Bills/EPC A-C
	Priority Sustainability 2 AMBER	MMC
	Priority Sustainability 3 RED	PASSIV

## 7.2 Geography

In terms of geography, the location of general needs new build and refurbished properties has been broken down into 3 main priorities areas, reflecting demand and STAR's critical mass of existing properties.

*Priority Area 1 - Shrewsbury, Oswestry and Bridgnorth (minimum 5 unit)*

*Priority Area 2 - Ellesmere, Wem, Ifton (minimum 10 unit) and*

*Priority Area 3 - Whitchurch, Southwest County, Market Drayton, Ludlow (minimum 20 units).*

The priority areas list is not exhaustive and merely provides a framework for approval, and in all cases STAR's development team will continuously consult with the lettings team to ensure the pipeline reflects demand. Consideration will be given to local infrastructure, proximity to local amenities and avoiding isolation. Where housing need in rural areas has been identified, STAR will emphasise efforts on infrastructure and service provision to minimise rural poverty, paying special attention to heat source within the existing infrastructure and resident affordability. The design will be in conjunction with local Town and Parish Council identified housing need, prioritising community led development in rural locations, and where possible, with a focus on the inclusion of housing for key workers and veterans in the locality.

## 7.3 House types

All properties will be designed to Nationally Described Space Standards (NDSS). Detailed design briefs are provided to consultants and contractors to ensure the design reflects Shropshire's growing need for an eclectic mix of house types, including 1 bed maisonettes or houses, as a priority. Depending on the size of the scheme and topography of the site, specialist housing is designed into the scheme from the outset, providing level access, and dispersing homes, ensuring inclusion and accessibility. These homes, as identified in the Housing LIN report, will adhere to Building Regulations Part M4(2), accessible and adaptable homes and Part M4(3) for wheelchair users. Other forecasted specialist housing will be designed with the specific client group for the accommodation in mind. A detailed asset review of the housing stock along with discussions with the local authority will identify sites for regeneration prioritising specialist accommodation.

## 7.4 Tenure

To address tenure demand for general needs affordable homes, social rent is identified as the highest priority for rented properties, and shared ownership is the highest priority for home ownership, as included in Shropshire's Local Plan and associated SPD for affordable housing delivery, where tenure

split is set at 70% rent and 30% shared ownership. However, revenues for social rent are sought via independent valuation and often confirm the rents are too low to sustain a viable scheme, causing a cost to value ratio issue whereby the cost of acquisition or build is much higher than the property is worth. To sustain the development programme the development team is often bound to deliver affordable rent where the rent is capped at LHA for first let. As detailed in Table 1.0 above the development team will continue to appraise and deliver social rent as a priority.

### **7.5 Build and Procurement Method**

STAR recognises the importance of procuring affordable housing specialist architects, consultants, and contractors and specialist housing provision benefits from a project team with experience and knowledge in this area. It is therefore prudent to the successful delivery of the pipeline that STAR continues to sustain and expand its consultant portfolio for new build affordable housing. The project teams will be carefully selected to meet housing need within the identified new build areas.

Consideration will be given to each scheme in the pipeline, depending on size and suitability to select one of the following build methods:

- *Traditional Build* - delivered via JCT D&B with an emphasis on derisking the site during the pre-development phase, therefore, where potential risk presents itself through due diligence pre-development phase, the risk will be mitigated to enable delivery of a more manageable and viable programme to practical completion. For example, access, remediation, utilities, highways and drainage solutions would be resolved prior to release of tender. Larger sites of 25-70 homes would be considered for this method of build.
- *Management Consultancy (MC)* - the contract will be closely managed through MC where individual packages will be tendered via a consultant and payment will be made directly with sub-contractors. The benefits of the latter derisk the scheme prior to and during the development process. Sub-contractors' payment terms are improved, and STAR will benefit from economies of scale through local procurement. Smaller sites within the pipeline would be suitable for this method of 1-25 homes.
- *Two-Stage Tender* - depending on the size and type of the development a two-stage tender could be more appropriate whereby a service agreement is entered into and a tender to contractors with technical teams is released at stage one, then move on to stage two completion of works with the same contractor. Otherwise, proceed with an open market tender for stage two for the delivery element.
- *Package Deals* – windfall land and build projects in specified areas. STAR will work closely with developers and contractors to in design, reflecting housing need for the area. Rural development benefits from package deals and would be the preferred procurement route and build method with a share on risk up to planning.
- *Joint Ventures* – working partnership on a risk and reward basis with other developers to deliver larger schemes under a robust legal framework where roles and responsibilities are identified.

- **Frameworks** – depending on the size of the development and availability and capacity of the contractor, frameworks aid speedy delivery during the pre-development phase. This method of procurement would be considered as a priority for temporary accommodation and specialist accommodation where demand for the accommodation is urgent, and programmes to occupation are at risk. STAR is currently onboard the CHIC framework to assist delivery. Frameworks employed are subject to the value of the project.
- **Section 106** – these are turnkey and off the shelf properties. STAR will continue to develop relationships with local developers and Shropshire’s housing strategy team to obtain stock more specifically targeting priority areas, tenures and house types identified within the triage and approval process, ensuring the purchases are in line with STAR’s business plan.

## 7.6 Sustainability Plans

All new build properties will be built to building regulations as standard achieving EPC B as a minimum. Specifications will be frequently reviewed to maximise energy efficiency. Where possible, PV Panels, Air Source Heat Pumps and a thermal wrap will assist the commitment to achieving EPC C and above for all new builds. STAR has ensured that the HRA plan is aligned to the Future Homes Standard 2025 and will exceed building regulations where possible contributing to the Net-Zero Carbon Emissions by 2050 agenda. STAR will continue to investigate low and zero bills focussing on MMC as part of delivery for sustainable housing and attract increased levels of Homes England grant funding to assist viability.

Once a development has passed STAR’s internal viability tests it will be put forward to the Council for approval. Approval will be granted if the project can be shown to be within budget, as set out in this plan, and meets all required parameters.

## 7.7 HRA Property Acquisition

In addition to new build properties the HRA may, from time to time, acquire pre-existing housing stock from other sources. In the event that such opportunities arise the acquisition will be fully appraised using the agreed appraisal approach aligned to the business plan and it will be clearly demonstrated how the acquisition fits within the agreed HRA business plan targets without detriment to any other factors and that it represents value for money.

From time-to-time new external funding opportunities may arise, for example Local Authority Housing Fund (LAHF) waves and the Single Homelessness Accommodation Programme (SHAP) which could enable properties to be delivered through different funding routes not yet identified in the plan. Where these opportunities require capital input from the HRA then careful consideration will be given to either diverting planned pipeline or increasing the borrowing envelope. This will be a matter for agreement between the parties to the business plan on a case-by-case basis.

## 8.0 The Customer

This new HRA business plan has been developed with input from key stakeholders and offers customers, old and new, a range of benefits.



The plan outlines a comprehensive approach to maintaining the HRA and housing stock over the next 30 years. By addressing sustainability requirements, compliance, consumer standards, and the need for more specialist social housing, it ensures that the housing stock remains in good condition and meets modern standards. This directly benefits customers by providing safe, compliant, and comfortable homes.

STAR recognises that a number of Shropshire HRA customers experience fuel poverty where they may struggle to afford adequate heating, leading to health problems and financial stress, potentially also leading to rent arrears. Sustainable modern homes can help alleviate this by incorporating energy-efficient features like improved insulation, energy-efficient windows, and renewable energy sources. These features reduce energy consumption, lower energy bills, and provide a comfortable living environment, making it more affordable for residents. Additionally, sustainable homes contribute to reducing carbon emissions, supporting environmental goals. Investing in sustainable modern homes offers long-term financial relief for those in fuel poverty and promotes a healthier, more sustainable living environment.

The plan includes a development programme to deliver more social housing, meeting the increasing demand. This means more housing options for customers, reducing waiting times and overcrowding. Moreover, offering a range of house types and branching into providing specialist accommodation is beneficial as it will provide more choice to customers. This variety ensures that different needs and preferences are met, making it easier for customers to find homes that suit their specific requirements.

Additionally, the plan incorporates robust scenario planning, allowing for the consideration of alternatives and identification of potential issues. This proactive approach ensures that the HRA remains financially stable and can continue to support customers even in challenging circumstances.

Significant investment in existing and new council homes helps stimulate economic growth, improve health and well-being, and build strong, sustainable communities. This investment means that customers can expect better-maintained homes and communities, contributing to their overall quality of life. The plan balances additional income from rent increases with investments in existing homes to make them cheaper to run, including new decarbonisation and energy efficiency technologies. This balance helps customers save on utility bills and live in more environmentally friendly homes.

Overall, a sustainable HRA Business Plan ensures that social housing customers benefit from well-maintained, safe, and affordable homes, while also supporting the broader community and environmental goals. It also offers a range of housing options, providing tenants with more choices to meet their diverse needs.

### **8.1 Customer Engagement**

STAR recognises that it is vital that customer's voices are at the centre of service development and delivery and will ensure that customers have opportunities to make their voices heard, listen carefully to what they have to say about their needs, or what is/isn't working well and then act on that feedback.

STAR has introduced the 'STAR Voice Customer Engagement Framework'. The Framework has been developed in partnership with customers and stakeholders and outlines our approach to engaging

with customers in line with our regulatory requirements. Its implementation is fundamental in ensuring that customers can influence and shape the corporate priorities of the business and help improve the services delivered to customers. There are many facets of the HRA business plan which have been and will continue to be influenced by the customer and STAR has high aspirations for Customer involvement in this respect. as part of our emerging and improved Customer Engagement plan for example we expect to directly involve customers in activities related to procurement so that they may shape the services and building development and improvements that are delivered.

Additionally, STAR has begun a journey to more deeply learn from customer complaints to ensure that we are really understanding what the customer is telling us through this contact and turn that into real, tangible service improvements. It is expected that there will be learnings and service improvements that will need to be implemented that will have a direct impact on the services outlined in this plan and ample opportunity will be made for that to happen. STAR has the privilege of working daily in peoples' homes and communities and being an important part of their lives, helping them overcome challenges, providing contact and wider support. It is vital STAR remains people focussed, treats people well and fosters openness and trust as well as demonstrating a caring proactive approach.

## 9.0 Finance Schedules

### 9.1 Funding requirements

The tables below summarise they key financial requirements of the HRA over the next five years. These are supplemented by a series of Appendices as described at paragraph 8.2 showing the 30-year outlook. Please note these schedules are in draft as at Period 9 2024/25 and may change following the final year outturn.

Table 2.0 sets out the cumulative expenditure levels of the key elements of the HRA Capital Programme over the next five years.

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
HRA Capital Borrowing Requirement	92	104	128	138	161	165

Table 2.0 - HRA Capital Expenditure Budget – 2024/25 to 2029/30

Tables 3.0 to 3.3 sets out the allocation of reserves, grant funding and borrowing required to fund activity up to 2029/30.

£m	24/25	25/26	26/27	27/28	28/29	29/30
Property Investment and Compliance	(8)	(10)	(10)	(10)	(11)	(11)
Revenue Allocations from HRA	8	10	6	10	8	7
Grants	0	0	0	0	0	0
Borrowing	0	0	4	0	3	4
	0	0	0	0	0	0

£m	24/25	25/26	26/27	27/28	28/29	29/30
Property Investment and Compliance	(8)	(9)	(10)	(10)	(10)	(12)
Revenue Allocations from HRA	8	9	7	10	10	8
Grants	0	0	0	0	0	0
Borrowing	0	0	3	0	0	4
	0	0	0	0	0	0

**Table 3.0 - HRA Borrowing Requirement for Property Investment and Compliance – 2024/25 to 2029/30**

£m	24/25	25/26	26/27	27/28	28/29	29/30
Sustainability – <i>Subject to change</i>	(1)	(10)	(16)	(6)	(4)	0
Revenue Allocations from HRA	0	0	0	0	0	0
Grants	1	5	7	3	0	0
Borrowing	0	5	9	3	4	0
	0	0	0	0	0	0

**Table 3.1 - HRA Borrowing Requirement for Sustainability Activity (Wave 3) – 2024/25 to 2029/30**

£m	24/25	25/26	26/27	27/28	28/29	29/30
New Build	(25)	(12)	(16)	(17)	(21)	(1)
Revenue Allocations from HRA	7	0	0	0	0	0
Grants	18	5	5	10	5	1
Borrowing	0	7	11	7	16	0
	0	0	0	0	0	0

**Table 3.2 - HRA Borrowing Requirement for New Build Development – 2024/25 to 2029/30**

£m	24/25	25/26	26/27	27/28	28/29	29/30
PIP (Major Repairs)	(8)	(10)	(10)	(10)	(11)	(11)
Sustainability – <i>Subject to change</i>	(1)	(10)	(16)	(6)	(4)	0
New Build	(25)	(12)	(16)	(17)	(21)	(1)
Revenue Allocations from HRA	15	10	6	10	8	7
Grants	18	5	5	10	5	1
Grant (Wave 3) – <i>Subject to change</i>	1	5	7	3	0	0
Borrowing	0	12	24	10	23	4
	0	0	0	0	0	0
<b>Cumulative Borrowing</b>	<b>92</b>	<b>104</b>	<b>128</b>	<b>138</b>	<b>161</b>	<b>165</b>

Table 3.3 – Summary table showing HRA borrowing requirement for all activity– 2024/25 to 2029/30

NB: The peak borrowing requirement of £174m is reached in 2034/35.

## 9.2 30-year budget and funding outlook

The appendices below are collectively shown under Appendix B Business Plan Finance Schedules.

### Appendix B 1 – HRA Operating Account – 2024/25 (as at P9) to 2053/54

This shows the budgeted inflows, outflows and movement on reserves of the HRA over the next thirty years.

### Appendix B 2 – Major Repairs and Development Financing 2024/25 (as at P9) to 2053/54

This shows the budgeted capital expenditure programmes and associated financing over the next thirty years.

### Appendix B 3 – Finance Dashboard

This shows how each of the golden rules, as described earlier in the report is met and therefore demonstrates the sustainability of the plans put forward.

## 9.3 Financial Planning Principles

A useful accompaniment to the financial schedules is the Financial Planning Principles document. This has been refreshed to align to the 2025/26 business plan. This is a Frequently Asked Questions (FAQ) style of document and sets out key assumptions and mechanisms related to the HRA and the plan as well as touching on the wider regulatory context for housing finance. This document facilitates alignment of assumptions between the parties involved in managing the HRA as well as providing a wider understanding of the housing finance principles which have shaped the development of the plan. This is attached at Appendix C for information.

## 9.4 Cost of Borrowing

A key consideration for Shropshire Council and STAR Housing is the cost of borrowing for new development and investment within existing stock. The HRA model assumes future borrowing interest rates of 4.25%. If this borrowing rate was to increase by 1% it would require additional borrowing of £6.198m. To maximise the value of investments, it is important to monitor market trends and adjust strategies accordingly, ensuring financial sustainability. Regularly reviewing borrowing rates and financial strategies can help mitigate risks and optimise the allocation of resources for housing development. Effective financial management practices should include

thorough risk assessments and proactive planning to address potential fluctuations in borrowing rates. This will ensure the long-term stability and success of the HRA Business Plan and ensure the HRA remains viable over the medium to long term.

## **10.0 Scenario Planning**

To prove the robustness of the plan several different scenarios were tested to determine the point at which each scenario would prove untenable. The scenarios tested are available in graphical format in Appendix D (Appendices 1 -2) and are summarised in their impact following:

### ***10.1 Increase in bad debt by 2% (from base 1.5% to 3.5%) from year 2 to year 30***

An increase in bad debt would mean an overall reduction in the amount of income that the HRA would receive in terms of dwelling rent. Current bad debt rates are approximately 1.5% and this has been built into the plan. An increase of 2% in this figure to 3.5% would result in a deteriorating position that assumes a breach of the £160m debt cap in year 6 reaching peak debt in year 12. The model assumes that a minimum reserve cover remains in place therefore additional borrowing, re-evaluation of the development schemes yet to be undertaken or potential reprofiling or major repairs work would be required to mitigate this risk.

### ***10.2 Increase in CPI/RPI to 7% (from base 2.7%) from year 2 to year 10***

Assumptions around CPI/RPI are, as previously discussed, dictated. The past two years have seen unprecedented levels of inflation and CPI/RPI levels have been at all-time highs, however during this period the highest level at which either measure was applied was 7.7%. Stress testing was carried out in the plan to assume that a consistent level of 7% CPI/RPI over the next ten years. The plan indicates that this increase would have the effect of breaking the debt cap in year 7 when additional borrowing, re-evaluation or further introduction of development schemes or potential reprofiling or major repairs work would be required to continue operating

### ***10.3 Increase in void loss rate to 4% (from base 1.5%) from year 2 to year 30***

Increase in void loss of 2.5% would result in a breach of the debt cap in year 7 reaching peak debt in year 12. As with previous examples the expectation is that borrowing, re-evaluation or further introduction of development schemes or potential reprofiling or major repairs work would be required to ensure viability. At a total of 4% for the entirety of the plan the interest cover remains viable at a minimum of 1.25. If the loss was to be greater than 4% the plan shows the interest cover would breach in year 6.

### ***10.4 No development activity***

The final scenario assumes that all new development activity would cease. The model shows that there would be a RTB receipt implication where funds would need to be returned to Government due to an inability to reinvest. The debt cap would not be breached as no additional funding would be required due to the inactivity however the lack of regeneration of the stock would result in interest cover being breached in year 6 and remaining so until year 12.

### ***10.5 CPI plus 1% uplift for the five-year period to April 2030, followed by CPI only, thereafter***

The existing social housing rent settlement will be rolled over by a further year to 2025/26, with indications suggesting this will continue for a further four years thereafter. The business plan model has been updated to reflect the possibility of this reduction from April 2030 onwards. The outputs

(shown in Table 1) suggest that capacity remains within the HRA until at least year 11 (2034/35), with interest cover and loan to value covenants remaining within target until this point. To mitigate this position re-evaluation of the development schemes in plan or the cost to the HRA of any ongoing major repairs would be necessary to ensure the future sustainment of the model.

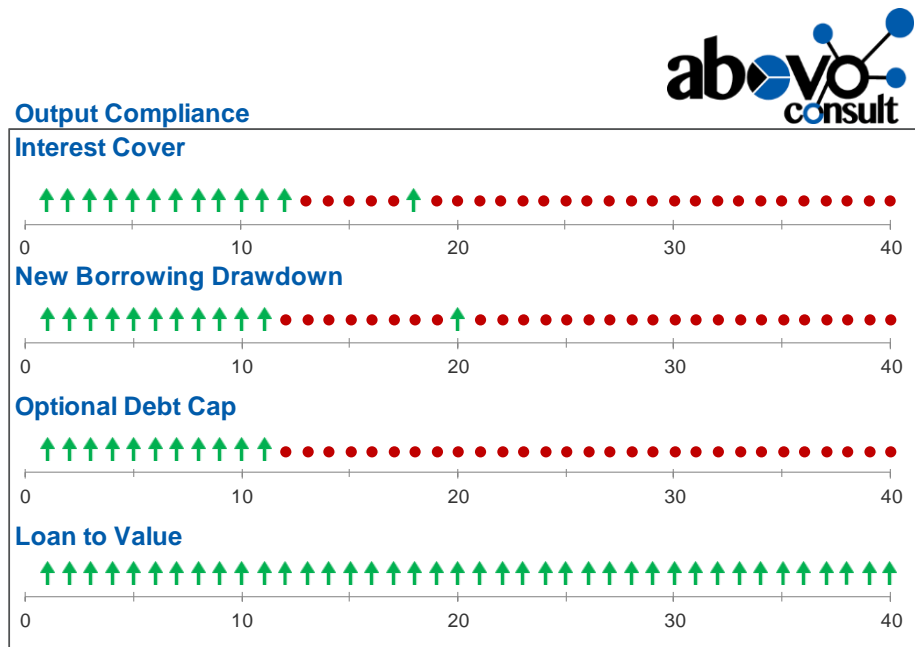


Table 1. Output compliance data for scenario detailed in 6.6.

### 11.0 Monitoring the plan

Once approved the HRA business plan will become the budget for the 25/26 financial year. Quarterly monitoring will be carried out against the plan and reported through STAR’s Financial, Audit and Risk subcommittee and board channels as well as through the HRA Finances group and Asset Assurance Board. The plan will be refreshed for approval again ahead of the 2026/27 financial year and each year thereafter. Each annual iteration of the plan superseding the last.

Regular meetings will take place between STAR and Shropshire Council finance colleagues to ensure continual alignment to the plan and to ensure any emerging initiatives are dealt with by all parties in a consistent manner. It will be critical to the sustainability of the HRA that any activity which is not identified in the plan does not take place without prior agreement between the relevant parties so that any adverse impacts can be mitigated or opportunities appropriately maximised.

### 12.0 External Validation

As part of the external validation of the additional borrowing within the HRA, Savills have been requested to review the proposal and comment on the assumptions associated with the HRA Business Plan, additional borrowing and strategic case to deliver more new homes. Savills have validated the business plan, the business case for additional borrowing and understand the strategic case linked to the homelessness and housing crisis. Further details are contained within Appendix E.



## 13.0 Future Approvals

It is proposed that STAR Housing annually submits a 30-year HRA business plan to the council for consideration. This will ensure the business plan is updated each year to consider wider economic issues, changes to the regulatory operating framework and actual financial performance.

## 14.0 Summary

In conclusion, the HRA Business Plan 2025 presents a robust and sustainable approach to managing the HRA in its entirety. The plan outlines several key benefits, including the development of new affordable housing units, the implementation of a comprehensive Property Investment Plan, and significant investments in sustainability and energy efficiency measures.

By leveraging the Abovo-Consult financial model, STAR Housing has demonstrated its capability to produce a rigorously tested and externally validated business plan that meets industry standards and regulatory requirements. STAR Housing is uniquely positioned to manage the HRA due to its extensive experience and proven track record in the sector. In particular, and after having established an ambitious programme of transformation, STAR has shown itself to be forward thinking and modern in its approach. An inspection of STAR by the Regulator of Social Housing as part of a pilot during 2024 graded STAR housing as C2 and the organisation has since made significant strides towards achieving the ambition of securing the highest grade of C1 in the future.

The collaboration between STAR Housing and the Council has already resulted in the successful delivery of a number of affordable housing schemes, but more needs to be done to prevent a decline in the robustness of the HRA. The continued partnership will ensure the effective implementation of the HRA Business Plan and in turn investment in social housing for Shropshire.

The plan's emphasis on long-term financial sustainability, including maintaining a minimum surplus per property and adhering to sector norms for borrowing capacity, ensures that the HRA remains financially sound and resilient to unforeseen impacts.

Additionally, the focus on energy efficiency and achieving EPC C ratings for all properties by 2030 aligns with government targets and supports the broader goal of achieving net-zero carbon emissions by 2050.

Overall, the HRA Business Plan 2025 represents a comprehensive and sustainable approach to managing the HRA, with STAR Housing well-equipped to lead its implementation and drive forward key programmes for the benefit of the Shropshire community.