**Appendix One: Housing Revenue Account Business Plan Assumptions 2023**

| Assumption | 2021 Business Plan | 2023 Business Plan | Explanatory Notes |
|---|---|---|---|
| 2012 Self Financing Borrowing | 50 Year Maturity Loan Interest payment will continue to be facilitated until 2051/52 with a view to the Capital Repayment being re-financed in line with specialist Treasury Advice over a phased period of 2051/52-2061/62 resulting in the £136.2m Self Financing loan capital repayment fully or partially being profiled over a further Period with a view to the debt being fully repaid at a later date. This will be considered and reviewed in the next 30 years | No Change to 2020 Assumptions | A 50 Year Maturity Loan from the PWLB originally resulted in the £136m loan being settled in full by 2061/62. The debt profiling of the current PWLB maturity loan capital repayments in 2051/52-2061/62 was causing severe restrictions on the HRA Business Plan. Specialist Treasury Management Advice has been sought in relation to refinancing this debt to enable more flexibility in the Business Plan and to enable a further level of flexibility in relation to dealing with the unknown financial impacts of Covid-19 and the ability to continue to deliver the construction and purchase of Social and Affordable housing to meet local housing need during this period. |
| Warwick Affordable Rents | All new Affordable rents to be set at the National Rent Policy Levels of 80% of Market Rents.<br><br>Existing tenants will not be affected by this change and will continue to pay rents calculated using the "Warwick Affordable Rents" Calculation.<br><br>Prior to 2020 Affordable rents were set at a Special "Warwick Affordable Rent" which is calculated at a lower rate of affordable rent which is effectively the mid-point between affordable and social rent. | No Change to 2020 Assumptions | The National Rent Policy States Affordable Rents are to be set at 80% of market rents in line with being granted permission from Homes England to become an investment partner.<br><br>Warwick Affordable Rents were historically set at a point where only relatively small levels of stock were given permission from Homes England to charge affordable rents, now that the council has achieved Homes England Investment Partner Status this policy is not deemed effective and reduces the viability of housing construction and acquisition schemes moving forwards.<br><br>As this was a change to Rent policy in 2020 this request was included for authorisation |

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| | Where Benefit is used as payment for Affordable Rent (dependant on specific circumstances) 80% of Market Rate Rent can be claimed (Housing Benefit/Universal Credit) which in some cases will be in excess of the Local Housing Allowance (LHA) rates used for rent caps in the private sector | | in the HRA Rent Setting Report in February 2021 with Existing Tenants paying rents using the Warwick Affordable calculation being able to continue until their tenancy ceases in applicable housing stock.<br><br>Where Benefit is used as payment for Affordable Rent (dependant on specific circumstances) 80% of Market Rate Rent can be claimed (Housing Benefit/Universal Credit) which in some cases will be in excess of the Local Housing Allowance (LHA). LHA rates are used for rent caps in the private sector and are not applicable to the Councils Social or Affordable Housing Rents as long as the rents are set in line with national rent policy then benefit will cover the cost of the weekly rent in most circumstances in line with DWP legislation. |
| General Inflation | Salary Inflation for the next year to be estimated at September 2020 CPI 0.5% +1% = 2.5%<br><br>Contract Inflation Estimated at 2%<br><br>Long Term Rents Inflation estimated over the remaining plan on average to be CPI + 1% = 2% p.a.<br><br>Fuel Inflation – Fixed 3-year contract so not inflated. | Salary costs have been inflated in line with the Local government pay settlement announced in the Autumn Statement on 17th November 2022.<br><br>Contract inflation for repairs and major works has increase significantly due to high inflation and where applicable has been inflated between 10-13% depending on the inflation indices generally linked to RPI at a certain month which differs in each contract.<br><br>Long term Rent Inflation from years 5-50 of the HRA BP has been assumed at 2.5% | The economic impact of high inflation, Cost of Living Crisis, economic instability, Covid-19, and Brexit has seen CPI and RPI Increase significantly in the last 12-month period.<br><br>To ensure Prudence an estimate of future Salaries, contracts, rent and fuel inflation increases has been factored into the financial modelling to ensure that realistic assumptions have been built into the HRA BP.<br><br>Housing Industry assumptions suggest a fluctuating economic impact with be felt for the next 3-5 financial years, in the prior business plan it was anticipated inflation |

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| | | Fuel Inflation – Electricity Costs have doubled, and Gas costs have quadrupled as per ESPO in line with a newly procured contract.<br><br>All other general expenditure between 2022/23 & 2023/24 has been inflated by 4% as part of the Councils Budget setting process. | would remain at very low levels however we have seen inflation rising and other costs increasing. |
| Homes England Grant | The Council has been awarded Home's England Investment Partner status and is able to bid for Affordable Homes Grant when considering the viability of housing construction and purchase schemes, where deemed viable Homes England Grant will be sought as a preferential means of financing schemes in line with applicable conditions attached.<br><br>In Prior Business Plans only small or limited schemes have incorporated Homes England Grant subsidy. | No Change to 2020 Assumptions | Homes England are able to award the Council grant subsidy in the HRA in the form of a recyclable conditional capital grant which contributes to the cost of construction of Social, Affordable and Shared Ownership Housing which ensures the deliverability of much needed housing in the district and increases the viability of the HRA Business Model |
| Social & Affordable Dwelling Rents | CPI + 1% from 2020/21 onwards.<br><br>For 2021/22 CPI+1 = 1.5%, based on September 2019 CPI being 0.5%<br><br>In line with Covid-19 economic conditions, it is estimated that CPI will be an average of about 1% p.a. for a further year following the initial 2021/22 Covid-19 period. | CPI would have been 10.8% in September +1% meaning social and affordable rents would have to be increased by 11.8% which was considered unaffordable to tenants by central government.<br><br>The Government instead has enforced a new 7% Rent Cap for 1 year in 2023/24 in place of national rent policy inflation. | From April 2020 the Government advised a new rents policy stating rents charged are to increase by CPI + 1% per year based on September CPI for a five-year period.<br><br>However due to the cost-of-living crisis and CPI increasing to 11% in Q3 of the 2022/23 financial year the government announced a 7% Rent Cap in the 17th of November Autumn Statement. The Cap is for 1 financial year. |

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| | From year three onwards it is assumed CPI will then increase to 2% returning to pre-Covid levels and continue at that level for the remainder of the business plan.<br><br>All void properties rents will be revised to target social rent. | From 2024/25 CPI+1 = 7.86%, based on September CPI being 6.86% using Office for Budgetary Responsibility Forecasts<br><br>From year three onwards it is assumed CPI will then gradually return to the 2.5% CPI returning to pre-Covid levels and continue at that level for the remainder of the business plan.<br><br>All void properties rents will be revised to target social rent. | Following this the Office for Budgetary Responsibility is forecasting CPI at approximately 6.86% in September 2023 so if the Cap is removed and CPI+1% is allowed again as per the National 2020 Rent policy the rent inflation at CPI+1% in April 2024 a rent increase of 7.86% has been applied to the Business Model. After that point inflation is expected to return to 2.5% for longer term estimates.<br><br>For void properties, the Council is able to set the base rent as the Target Social Rent (also known as Formula Rent).<br><br>The Previous Rent Policy implemented a 1% rent reduction per year, for four years which commenced in April 2016. A one-year deferral was introduced for supported housing from the reduction of social rents in England of 1%, allowing the Council to continue to apply a CPI + 1% rent increase in 2016/17. From 2017/18, the rent reduction then applied, with these rents decreasing by 1% a year for 3 years, up to and including 2019/20. |
| Shared Ownership Dwelling Rents | RPI as at October 2021 at the time of writing this report is 6.0% so an estimate of 6.0%+0.5% totalling 6.5% is assumed for 2022/23.<br><br>An average of 2% is assumed for the remainder of the business plan | The new 7% Rents Cap will be applied to the Shared Ownership Rents in place of applying National Rent Policy of RPI+0.5% which in November 2022 was 14% so rents would have been inflated by 14.5%.<br><br>Even though this 7% Cap is not specifically included in the rent cap | Shared ownership tenancies will continue to adopt lease agreements based on the existing Housing & Communities Agency (HCA) template lease with rents increased by RPI + 0.5% annually but a 7% rent cap will be applied in 2023/24. |

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| | | legislation the National Housing Federation has advised Registered Providers to Voluntarily adopt this cap due to the abnormally high RPI indices and in line with assisting tenants in the cost-of-living crisis.<br><br>In 2023/24 the Office for Budgetary Responsibility have forecast RPI will reduce to 6.27% by November 2023 so for prudence an estimated Rent inflation of 6.77% has been assumed for 2024/25 when the 7% cap ends. After this point a 2.5% long range estimate has been applied for the remainder of the business model which is in line with historic RPI levels. | The Impact the economic instability in 2022 has rapidly and unexpectedly increased RPI in such a short period of time.<br><br>For modelling purposes these fluctuations have been fed into the HRA BP as 1 year of 7% rent inflation and 6.77% for the following year and then in years 3-50 averaged out at 2.5% for the remainder of the business plan to reflect the economy recovering and to ensure prudence. |
| Garage Rents | Increase of 10% per year for 5 years from 2020/21.<br><br>CPI + 1% for the remainder of the business plan following this 5-year period. Averaging at 2% | No Change to 2020 Assumptions | Garage rent increases are not governed by national guidance. Any increase that reflects costs of the service, demand, market conditions and the potential for income generation can be considered.<br><br>In 2020 an Increase of 10% per year for 5 years was approved until 2025/26.<br><br>CPI + 1% averaging at 2% is assumed for the remainder of the business plan after 2025 when CPI should return to normal levels.<br><br>Historically 2018/19 incurred an Increase of 5% per year and prior to this an average £4 per garage increase was in place until 2017-18. |

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| | | | |
| Rents Other | Increase by assumed long term CPI of 2% per year for the remainder of the business plan. | No Change to 2020 Assumptions<br><br>Shop and commercial property rent reviews are undertaken upon the grant of a new lease/tenant using market commercial rent valuations. | Within the Housing Revenue Account, the Council has a number of shops and etc. which whilst still forming part of its Operational non-current assets are leased out on a commercial basis in order to derive rental income. |
| Bad Debts as a % of Gross Rents | In real terms 2020/21 Bad Debts written off to the Bad Debt Reserve cost £350,736 against a total HRA income of £27,070,606 excluding non-rental income which equates to a 1.3% Bad Debt cost.<br><br>For prudence and in light of current economic instability a 1.8% provision will be estimated for 2022/23.<br><br>The remainder of the business plan will reduce to 1.6% in line with pre-Covid-19 economic conditions.<br><br>The phased introduction of Universal Credit to only new Claimants has not impacted the Bad Debt % as negatively as first anticipated in 2018/19 with a view to assumptions of the continued phasing of the rollout being | In real terms in 2021/22 there was no change to the previous year contribution to the Bad debts provision and no further amounts were needed to be written off and in the 2021/22 Outturn report presented to 29th September Cabinet this was presented in Item 4 Appendix B<br><br>For prudence and in light of current economic instability and uncertainty of the future a 1.8% provision will be estimated for 2023/24.<br><br>The remainder of the business plan will reduce to 1.6% in line with pre-Covid-19 economic conditions.<br><br>Appendix 6 of this report shows that the balance of the Bad Debts Reserve of £1,980m has only slightly changed in comparison to the last financial year. | In light of Covid-19 Housing Industry Experts were expecting Bad debts to Increase initially in 2020/21 which was not the case in real terms. Arrears did increase slightly but bad debts being written off did not significantly increase.<br><br>However, the current economic instability must be treated with caution so a prudent estimate of 1.8% is adopted and then return to pre-covid-19 levels.<br><br>The Governments various tenant and rent protection schemes over the pandemic have ensured arears and bad debts have remained manageable.<br><br>Prior to Covid-19 the Government began to introduce Universal Credit across the county in 2015. Initially it was expected that this change to Universal Credit would increase the level of bad debts significantly but the phasing of this roll out seems to have negated this assumption. |

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| | incorporated in the above assumed percentages. | | |
| Void Rent Loss as a % of Gross Rents | 0.7%. for housing rents.<br>26% for garage rents. | 0.7%. for housing rents.<br>26% for garage rents. | Housing voids of 0.7% are driven by the need to repair and maintain stock in between tenancies, and an increased focus on ensuring tenants are in the most suitable housing stock.<br><br>Approximately 26% of garage stock is vacant.<br><br>Housing Voids have not been negatively affected by the impact of Covid-19 so this assumption will not change. |
| No. of Garages Demolished | 42 Garages were demolished in 2017/18. It is currently assumed no further garages will be demolished in the Business Plan | No Change to 2020 Assumptions | Garage sites are regularly reviewed to assess, where appropriate, sites to be considered for future redevelopment and parking needs. A review is currently being undertaken and developments will be presented to Cabinet for approval. |
| Management Costs | No changes to overall structure agreed at Budget Setting. Costs to increase by CPI +1%.<br><br>When homes sold, assume no saving in management costs. | No changes assumed to business plan other than specific inflation increases on specific costs that have been inflated as part of the budget setting process.<br><br>When homes sold, assume no saving in management costs.<br><br>When new dwellings are adopted increase management costs in line with average costs per dwelling | Staffing and newly adopted housing stock costs for future years will be updated on an annual basis as changes become apparent. |

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| Revenue Repairs & Maintenance Costs | Annual costs increase of CPI + 1% assumed + additional 0.5% to take account of changes in building materials cost.<br><br>When dwellings sold, save 100% of average unit repairs cost.<br><br>When new dwellings are adopted increase using average costs per unit. | Assume a 1 off increases of 10-13% on Materials/Labour on specific Major works and repairs contracts for 2023/2024<br><br>Annual costs increase of CPI + 1% assumed + additional 0.5% to take account of changes in building materials cost.<br><br>When dwellings sold, save 100% of average unit repairs cost.<br><br>When new dwellings are adopted increase using average costs per unit. | Moving to Schedule of Rates and prices will increase in line with RPI plus a percentage to reflect the increase in the costs of building materials.<br><br>Dwellings lost through Right to buy sales and acquisitions of Social, affordable, and shared ownership dwellings will be adjusted for.<br><br>When new dwellings are adopted increase using average costs per unit appropriately in line with new build guarantee timescales.<br><br>All Repairs and works contracts have been assessed in line with high inflation and inflated appropriately. |
| Capital Maintenance Costs | A new 10-year Housing Improvement Plan is in place assessing each of the 10 years independently in line with Stock Condition Survey, Climate Emergency Works and Fire Safety works alongside Grant funded works.<br><br>After this 10-year period annual costs increases assumed at CPI + 1%. | A 10-year Housing Improvement Plan is in place assessing each of the 10 years independently in line with Stock Condition Survey, Climate Emergency Works and Fire Safety works alongside Grant funded works.<br><br>After this 10-year period annual costs increases assumed at CPI + 1%.<br><br>Assume a 1 off increases of 10-13% on Materials/Labour on specific Major works and repairs contracts for 2023/2024 | Specialist Capital works such at Fire Safety and Climate Change works are accounted for separately in the business plan using an updated 10-year Housing Investment Plan.<br><br>Dwellings lost through Right to buy sales and acquisitions of Social, affordable, and shared ownership dwellings will be adjusted for.<br><br>All Capital Maintenance Contracts have been assessed in line with high inflation and inflated appropriately. |
| No. of Right-To-Buy Sales | 1,734 total RTB sales are estimated over the full 50-year business plan | 1636 total RTB sales, a small reduction on the previous business plan | Right to Buy sales have reduced in the Covid-19 economic period with only 26 units being sold in 2019/20 and 2020/21 and in 2021/22. It is anticipated the current |

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| | | | economic uncertainty will maintain a lower lever of sales for the next 2-5 years.<br><br>A reduction of estimated sales to 26 units will be assumed in the next 2 years and then gradually returning to pre-Covid levels of 32 sales per year from 2030/31 after this for the remainder of the business plan. |
| Income from RTB sales reserved for 1-4-1 replacement | £1.4m in 20-21 RTB receipts for the GF & HRA | £600k for the HRA and £450k for the GF in RTB receipts for 2022/23 and 2023/24<br><br>Assume an increase to pre-pandemic levels of sales and increase to £1.4m for the remainder of the BP. | The Council entered the Right to Buy Capital Receipts Pooling arrangement with MCHLG in 2012 in line with HRA Self Financing. As part of the agreement the Council is only able to retain a predetermined % of the Right to Buy Capital Receipts.<br><br>The reduction in RTB Sales during the pandemic has resulted in a reduction in the sales receipts retained to support 1-4-1 replacement of sold homes.<br><br>From 1 April 2021 (MHCLG) changed the rules in the Right to Buy (RTB) Pooling Receipts Retention Agreements.<br>A summary of the changes affecting the HRA BP are:<br>• The timeframe to spend increased from 3 years to 5 years.<br>• The percentage to fund new homes increased from 30% to 40%<br>• Authorities can use receipts for ownership and First Homes, affordable and social rent, |

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| Income from RTB sales available for any purpose | £0 | £0 | Assume council continues current policy of using such receipts to support General Fund Capital Financing in line with the Right to Buy Receipts Pool Legislation<br><br>Local authority share - calculated to approximate to what authorities General Fund would have retained had the pre-2012 pooling system continued when they retained 17% of all net RTB receipts. |
| New Homes - Rents | A mix of Warwick Affordable, Social Rent, Shared Ownership. | A mix of "National" Affordable, National Affordable, Social Rent and Shared Ownership. | New properties will be let as specified in the mix at the time of acquisition or as per the Section 106 specification.<br>A mix of Social Rent, Shared Ownership, and National Affordable and Affordable Rent will be applicable.<br><br>Warwick affordable rents were historically set mid-way between Target Rent and National Affordable rent (80% of market rent) however National levels of Affordable Rents were adopted on new Affordable Housing Stock from 2020 onwards. |
| Interest Rate on HRA Balances | 0.7% over the life of the BP. | 0.7% over the life of the BP. | Income from Interest generated from HRA Balances |
| Interest Rate on HRA Debt | Actual rates for current debt (average 3.5%) | Actual rates for current debt (average 3.5%) | This is a fixed rate of interest on the HRA Self Financing debt over the life of the loan. Authorisation to refinance the repayment of the loan was ascertained in 2020 but the original loan agreement states the loan is due to be repaid in phases over a 10-year period annually from 2051/52 to 2061/62. |

<table>
<tr><th>Assumption</th><th>2021 Business Plan</th><th>2023 Business Plan</th><th>Explanatory Notes</th></tr>
<tr><td>PWLB Borrowing Rates on New Borrowing</td><td>Average of 1.8%</td><td>New PWLB Borrowing using Annuity Loans has been forecast at the interest rates as per the below table by Link Treasury Management Services. These percentages are net of the 0.2% certainty discount the council receives for providing an annual capital financing plan to the PWLB.<br><br><table>
<tr><th>Year</th><th>%</th></tr>
<tr><td>2022/23</td><td>3.9</td></tr>
<tr><td>2023/24</td><td>3.7</td></tr>
<tr><td>2024/25</td><td>3.6</td></tr>
<tr><td>2025/26</td><td>3.5</td></tr>
<tr><td>2026/27</td><td>3.0</td></tr>
<tr><td>2027/28</td><td>3.0</td></tr>
<tr><td>2028/29</td><td>3.0</td></tr>
<tr><td>2029/30</td><td>3.0</td></tr>
<tr><td>2030/31</td><td>3.0</td></tr>
<tr><td>2031/32</td><td>3.0</td></tr>
</table></td><td>The Covid-19 pandemic saw Borrowing rates for the HRA in 2020-2021 drop as low as 0.6% and increase up to 6.5% in the recent economic instability.<br><br>For modelling purposes, the % rates in the table to the left have been used and a long-range forecast of 3% would be applied.<br><br>Where new borrowing has already been secured for acquisition and developments the actual PWLB Rate secured on that borrowing is included in the business plan.<br><br>Long range forecast with economy recovering show the % will not drop below 3% or anywhere near pre-pandemic levels.<br><br>All Borrowing interest costs have been modelled using the %'s in the table to the left in line with the phasing of the borrowing required at the time of writing this report.</td></tr>
<tr><td>Depreciation</td><td>75 Years</td><td>75 Years</td><td>The depreciation policy for the life of the Housing Stock will be changed from 50 years to 75 years on 2019 as per consultation from property valuation experts Carter Jonas.</td></tr>
</table>