

Appendix 1: HRA Business Plan Key Assumptions

	Assumptions	Notes
Inflation	2023/24 – 10% 2024/25 – 6% 2025/26 – 4% 2026/27 Onwards – 2%	<ul style="list-style-type: none"> 2023/24 reflects current CPI (most contracts are uplifted according to a retrospective CPI rate) The rates used for 2024/25 reflect OBR averages over the next 12 months The OBR forecasts that CPI will start to correct in 2025/26 (and may even turn negative as energy prices stabilise) but a slightly more cautious outlook has been adopted for the HRA Most commentators expect CPI to revert to the BoE target of 2% by 2026/27
Dwelling Rents	2023/24 – 7% 2024/25 – CPI+1% 2025/26 Onwards – CPI Only	<ul style="list-style-type: none"> Government rent cap applied for 2023/24 Assumes that the existing rent policy will continue to be applied for the final year of the 5-year period (i.e. CPI+1%) Cautious assumption from 2025/26 onwards (in the absence of any formal announcement on future rent policy)
Voids	2%	Same as previous BP
Bad Debt	0.61% in 2023/24 and 2024/25, 1% from 2025/26 onwards	Same as previous BP
Service Charges	£6.84 as the opening average weekly charge (uplifted in line with inflation rates applied to rechargeable costs)	<ul style="list-style-type: none"> Opening rate based on most recent SC estimates (i.e. 2022/23) Difference to previous BP is that CPI has not been used to inflate the charges, instead the specific inflation assumptions for qualifying costs (e.g. estate services, utilities) have been applied
Non-Dwelling Rents	Linked to CPI from 2023/24	Same as previous BP
Repairs and Maintenance Costs	Based on an adjusted CPI estimate to reflect higher inflation in this sector	<ul style="list-style-type: none"> Inflationary pressures in 2022/23 were generally higher than CPI (and this trend has therefore been reflected)
Interest Rates	2.6% on External Borrowing	<ul style="list-style-type: none"> Same as previous BP This reflects an expectation that the Council's forward borrowing facility will support investment in the short-term and provide time for interest rate volatility to settle
Pay Award	5%	Consistent with General Fund
RtB Sales	15 per annum	Same as previous BP

Appendix 2: HRA Business Plan Risks, Impacts & Mitigations

Risk	Impact	Mitigation
Capital Receipts	Any significant slippage in the timing or value of receipts will create a shortfall in capital financing (temporary or permanent) which would increase the HRA borrowing requirement.	<p>HRA borrowing doesn't hit capacity until Year 12 of the business plan. Up to this point there is sufficient headroom to manage delays to the timing of receipts.</p> <p>In order to manage potential shortfalls, valuations will be regularly undertaken for schemes with units for sale in order to closely monitor projected receipts. Alternative options may be sought to keep schemes viable.</p> <p>A development contingency is included to cover shortfalls of this kind and keep the capital programme within available funding parameters.</p>
Availability of External Funding	The Climate Works programme is assumed to be 50% externally funded (i.e. government grants). If this is unachievable, the HRA borrowing requirement will increase.	The interest cover in the HRA BP provides an opportunity to generate additional borrowing capacity, if required. However, it is likely that a more permanent mitigation would be required that would likely require a flattening of capital spend profiles or even exiting from investment activity that is not formally committed (and revising priorities accordingly).
Rent Policy	The 5-year Rent Policy period comes to an end in 2024/25. If the revised policy for 2025/26 onwards restricts rent increases by more than the level modelled (CPI Only) there will be a reduction in HRA income.	<p>Lobbying, with other RPs, is key to the success of preventing this.</p> <p>However, the level of interest cover built into the HRA revenue budget and the balance on the HRA reserve provides a mitigation to reduce the potential impact of a rent</p>

Risk	Impact	Mitigation
		<p>freeze (at least for a short period of time, before spending plans might need to be revised).</p> <p>The messages from Government appear to indicate that there is appetite to extend the rent limit of CPI+1% into future years. This represents a potential upside for the WCC HRA (and would act as an additional mitigation for many of the other risks included in this schedule).</p>
Interest Rates	<p>The rates assumed are 2.6% on new borrowing throughout the plan (based on current forward borrowing arrangements). If interest rates were to rise significantly this would have an adverse impact HRA borrowing capacity.</p>	<p>The revenue budget includes an interest cover ratio of at least 1.20. This ensures that the revenue budget can absorb the impact of interest rate increases (up to a point).</p> <p>Stress testing of the business plan indicates that it could potentially absorb the impact of an increase of up to 1.4% over and above the rate assumed.</p>
Inflation	<p>If inflation were to be higher than the assumed CPI rates, the resulting cost increase would alter the surplus/deficit position on the revenue account.</p> <p>The cost increases would also impact scheme viability within the capital investment strategy and may result in a need for additional borrowing.</p>	<p>The increase in revenue costs would be partially offset by increased income that is also linked to CPI (e.g. rents and services charges).</p> <p>The level of interest cover on the revenue budget would also provide some means of absorbing cost increases, but ultimately the BP would need to be refreshed and spending plans reviewed accordingly.</p>
Cost of Living Crisis	<p>The increased strain on household incomes undoubtedly increases the</p>	<p>More active/proactive debt management action will undoubtedly be required, mainly</p>

Risk	Impact	Mitigation
	<p>likelihood that levels of rent arrears will grow. If this becomes bad debt, available HRA resources will reduce. This has yet to materialise to any significant degree but may become more prevalent when government support for energy bills ceases.</p>	<p>to get an early warning on emerging trends.</p> <p>The Council's Rent Support Fund is designed to help tenants that may be experiencing difficulty with rent and will also provide an opportunity for early intervention to prevent arrears from building.</p>
<p>Impact of Brexit/Economic uncertainty on construction prices</p>	<p>Price inflation is being experienced within the construction/maintenance sector driven by the availability of materials and labour (arising from global inflation, barriers to supply, additional costs applied to imports, and changes in the value of sterling). This could continue to drive a need for increases to the HRA borrowing requirement or adversely impact delivery profiles within the capital programme.</p>	<p>A selection of current projects have already been reviewed to identify and quantify the potential future impact of inflation based on the best evidence available. A total of £50m has already been released from the programme contingency to help schemes to absorb the impact of this cost pressure and remain viable.</p> <p>Ultimately, the contingency built into the capital programme will continue to be the key mitigation, but where schemes become unviable as a result of cost increases there may be a need to terminate or delay.</p>