ADUR
DISTRICT COUNCIL

Joint Overview and Scrutiny
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TITLE: **Housing Revenue Account – Budget 2013/14**
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1.0 SUMMARY

1.1 This report sets out financial arrangements for the Housing Revenue Account and asks Members to set the rent levels and service charges for 2013/14, and considers some of the issues emerging from 2014/15 onwards.

2.0 INTRODUCTION

2.1 This report seeks to explain the main issues surrounding the budgets for the Housing Revenue Account to enable Members to set rent levels for 2013/14. It also provides more detailed explanations of housing finance issues for Members who require an understanding of some of those technical issues.

2.2 The Housing Revenue Account (HRA) pulls together the total costs and income of the Council in its provision of the Housing Landlord Service. This account is ring-fenced so that it is totally separate from the other income and expenditure of the Council.

2.3 From 1 April 2012 the Localism Act replaced the former complicated HRA subsidy system with a new self-financing regime. The new regime allows the Council more freedom to determine its own budget, albeit some financial restrictions still apply, most notably around the use of Right To Buy (RTB) capital receipts and prudential borrowing limits.

2.4 The Council is now able to retain all of its revenue housing income streams whereby previously it was required to pay over a significant proportion of it as subsidy to Central Government. Under the self-financing regime the Council is required to operate the HRA on a sustainable basis at no detriment to the General Fund (and vice versa). To facilitate this the Council, as with all housing authorities, was required to produce from the start of 2012/13 a thirty year financial Business Plan showing how the HRA could be run on a self-financing basis. This report updates the Business Plan as the second year approaches, and informs members of the key budgetary assumptions which underpin the financial projections from 2013/14 onwards.

2.5 The setting of rent levels is now an integral part of the financial planning decision making process. Officers are recommending a 3.1% increase.

2.6 Additionally, this report updates Members on the changes to RTB and welfare benefits and the potential implications of these new arrangements.

3.0 SUMMARY EXPLANATION OF THE NEW SELF FINANCING REGIME

3.1 As with many other local authorities the Council was required by central government on 28 March 2012 to effectively buy itself out of the former subsidy system by making a Self-Financing Determination Settlement Payment to the Department for Communities and Local Government (DCLG). For Adur the payment amounted to £51.185m and was funded by a 30-year loan from the Public Works Loan Board at a rate of interest of 3.03%. The settlement amount was derived from the CLG's valuation of the Council's housing stock using a discounted cash flow model of the rental income and expenditure required to maintain the housing stock over the same period of 30 years.

3.2 With the commencement of the Housing Self Financing Regime from 1 April 2012, two significant elements of the HRA budget changed. Firstly, the cost of net subsidy payments to central government ceased, and secondly, HRA capital financing costs formerly prescribed by statute (the Item 8 Debit) were replaced by a more de-facto basis of apportionment relating to past capital investment, and the cost of new borrowing specifically undertaken to meet the self-determination settlement payment and future capital investment. These changes formed the most significant elements of the 30 year Business Plan, which was approved by the meeting of the Adur Cabinet on 7 February 2012. One year on, this report updates the estimates for all aspects of the HRA budget for 2013/14 onwards.

3.3 To quantify the principal consequences of the changes from the former subsidy system to a self-financing approach, the Council is no longer required to pay some £4.9m per annum to central government as negative subsidy payments. Although £2.0m of this was repayable back to the Council as Major Repairs Allowance (MRA), the net cost to the HRA in 2011/12 was still in the region of £2.9m pa. Hence, with the cessation of these transactions, the charge on the HRA has reduced by the same net amount, allowing capacity in the budget to be utilised to cover the financing costs of the £51.185m settlement loan and new capital investment.

3.4 The financing costs of capital investment consists of interest on borrowing and the minimum revenue provision (MRP) necessary for the repayment of principal over the life of the assets acquired by borrowing. Both financing elements are recognised in the HRA.

3.5 The budgeted financing costs for 2013/14 are disclosed in Para 7.

3.6 An overriding requirement of the financial context in which self-financing is to operate is the imposition by CLG of an overall HRA debt limit. From 1 April 2012 this was set at £68.912m, comprising £51.185m for the debt incurred to pay the Settlement Payment, with the balance of £17.727m relating to an estimation of the Council's underlying need to borrow (as measured by the Housing Capital Finance Requirement or HCFR).

3.0 SUMMARY EXPLANATION OF THE NEW SELF FINANCING REGIME

3.7 Since the Council was at the debt limit at the start of 2012/13 financial year, the propensity to take on new debt is reliant on the ability to provide for the repayment of existing debt. As the amount borrowed to pay the Debt Settlement Payment amount is a loan repayable over 30 years in equal instalments of principal (EIP), the Council will achieve headroom for new borrowing of at least £1.706m per annum.

3.8 In recognition of the significant impact self-financing has on many Councils' borrowing position generally, The Chartered Institute of Public Finance and Accountancy (CIPFA) revised its Treasury Management In the Public Services Code of Practice in November 2011. The revised code encourages Councils to devise and maintain a Treasury Management Strategy for HRA purposes that recognises the impact of alternative borrowing and investment decisions, and which underpins HRA service and business planning requirements.

3.9 The HRA Treasury Management Strategy is intended to operate alongside, but distinct from, the corporate Annual Treasury Management Strategy for Adur as a whole. Nevertheless, the results should be fair and equitable for both tenants and council tax payers generally. Accordingly, Appendix 5 of this report considers the principal elements of the HRA Treasury Management Strategy.

3.10 Despite taking on a considerable amount of additional debt, the new system gives the Council the opportunity to address some long running concerns about the level of resources for the on-going maintenance of property and to finance a larger proportion of the capital programme from revenue which will ultimately save the Housing Revenue Account interest costs. These issues are discussed in more detail within the body of the report.

4.0 RISKS AND CHALLENGES REGARDING RIGHT TO BUY AND REFORM OF HOUSING BENEFITS

4.1 Council housing stock numbers are as follows:

	2011/12	**2012/13**	**2013/14 (Estimate)**
Stock at 1st April	2,658	2,652	2,648
Plus: Additions - Note(1)		5	-
Less: Right to Buy sales	(6)	(9)	(12)
Less: Disposals	-	-	-
Stock at 31st March	**2,652**	**2,648**	**2,641**

Note (1:) These additions are the repurchase of previously owned council dwellings, and over time is intended to increase to offset the impact of dwellings sold under Right To Buy.

4.0 RISKS AND CHALLENGES REGARDING RIGHT TO BUY AND REFORM OF HOUSING BENEFITS

4.2 Since the introduction of the Right to Buy legislation in 1980 over 2,300 properties have been sold, although as can be seen from the above table, right to buy sales have reduced in the last few years, partially in response to the worsened economic climate. However, the last few months have seen a more steady increase in the number of sales. As at the end of January 2013, 9 properties have been sold so far.

4.3 A depleting housing stock base means that fixed costs per property increase and rental income reduces. As detailed below the level of capital receipts retained by the Council to replace the reducing housing stock base are limited due to the increase in the level of discount offered and the DCLG restrictions placed under the new RTB arrangements.

4.4 In March 2012 the DCLG published a paper “Reinvigorating Right To Buy and One For One Replacement – Information for Local Authorities” detailing the RTB arrangements to apply under Self-Financing. This document was the culmination of two consultations in November and December 2011, and confirmed two broad principles underpinning Government policy:

- To increase the cap on Right to Buy discounts to 75% (Cash limit of £75,000) to enable more people to achieve home ownership.

- To ensure that the receipts on every additional home sold under RTB is used to fund one to one replacement nationally (i.e. Councils are not required to demonstrate one for one replacement locally).

4.5 As with the former system the RTB scheme applies to secure tenants, but from April 2012 the Council (as with all Local Authorities) may retain RTB receipts providing they enter into a signed agreement with the Secretary of State by June 2012. The Council has made such an agreement, the conditions of which are that:

(i) it only applies to the RTB sales above the number assumed each year in the HRA self-financing settlement and for Adur the original 75% central pooling arrangement will continue for the first 4 properties sold;

(ii) the Council use the receipts for the provision of “affordable” rented homes (i.e. those with rents up to 80% of market rents), albeit that in practice the Council may exercise discretion to set rent below this figure, and maybe as low as 65% in keeping with some housing associations;

(iii) the retained share of receipts constitute no more than 30% of total investment in such homes (net of any contribution from another public body)

(iv) the retained receipts are used within 3 years to provide new affordable homes, otherwise they will be required to be paid into the CLG pool plus accrued compound interest of 4%

4.0 RISKS AND CHALLENGES REGARDING RIGHT TO BUY AND REFORM OF HOUSING BENEFITS

4.6 The rationale of the Government's framework is that it wants replacement homes provided for as quickly as possible, and has evidence from the 2011-15 Affordable Homes Programme that it should be possible to fund new homes let at affordable rent with no more than 30% of the cost of new homes coming from RTB receipts. Consequently, it is envisaged that the other 70% of the cost will be met from borrowing financed against the rental income stream of the new properties provided, or "cross subsidy" from the council's own resources – albeit that the council will not be allowed to generate cross subsidy by converting existing social rented homes to affordable rent.

4.7 The RTB regulations allow the amount of RTB receipts to be pooled to be reduced by certain deductible items:-

- transactions costs
- any abortive costs of RTB applications
- an adjustment to take account of the change in the assumptions of RTB sales made in the DCLG Self-Financing Settlement valuation business model calculation

4.8 Officers will be developing modelling scenarios to evaluate the impact of the conditions of RTB agreement, the additional provision of finance required to replace and the potential income streams.

4.9 The impact of the increased discounts upon RTB Sales is difficult to predict as it is still early days, and it remains to be seen how much of an enticement the new discounts will be to potential buyers. 12 sales per annum have been assumed, although the consequential loss of rental income from these sales may in future be mitigated by the aim to purchase five flats per annum, as well as introduce a new build programme in future years.

4.10 The Welfare Reform Act received Royal Assent in March 2012 and introduces the most significant changes in the welfare system in over 60 years. The reforms reflect the Government's aim to reduce the cost of welfare benefits generally, but may increase the financial pressures on some of the most vulnerable people of society. Among the measures being introduced are caps on the amount of weekly benefit, including further reductions for under occupation, generally referred to as the 'bedroom tax'.

4.11 Also, for working age people, a Universal Credit will replace a number of former out of work benefits, including housing benefit, income support, job seekers allowance, income related employment and support allowance, child benefit, child tax credit, and carer's allowance. For new claimants and those with a change of circumstances, the changes come in from October 2013 and will then be rolled out in a phased programme up to the end of 2017 for existing claimants. Universal Credits will be paid directly to claimants rather than the current arrangement of direct payment to the Local Authority as landlord. Hence the propensity for benefit to be spent on rent, as opposed to other expenditure, is in the hands of the individual recipient.

4.0 RISKS AND CHALLENGES REGARDING RIGHT TO BUY AND REFORM OF HOUSING BENEFITS

4.12 Approximately two thirds of Adur tenants are in receipt of benefits and it is likely that there will be pressures on rents and debt collection in future. In particular, the 'bedroom tax' is anticipated to affect 212 tenants (8% of all tenants) who will lose 14% of their housing benefit for the first spare bedroom, and 25% if they have two or more bedrooms unoccupied. Tenants who are no longer of working age (i.e. 62 and over) are exempt from these reductions. Initial enquiries with the tenants affected have revealed disparate reasons why some would not wish to move from their present accommodation. For example, some tenants have children of the opposite sex and would require larger accommodation in future, while others have specific disabled adaptations. However, a small minority of tenants appear to have no reason for remaining in under occupied accommodation, citing they were allocated a larger property for children who are no longer resident. In any event, the impact may adversely affect the projections for collections of arrears.

5.0 THE HOUSING REVENUE ACCOUNT FOR 2013/14

5.1 The projected expenditure and income for the HRA in 2013/14 is as follows:-

	Estimate 2013/14
	£'000
Expenditure	12,575,850
Income	(12,921,910)
Net (Surplus)/Deficit for the year	(346,060)
Proposed contribution to /(from) reserves	346,060
Overall position for the year	-
Balance brought forward 1st April, 2013 Housing Revenue Account *	**(2,079,393)**
(* This includes £229,285 transferred from the Housing Repairs Account balance)	
Balance carried forward 31st March, 2014	(2,079,393)

More detailed estimates for the Housing Revenue Account for 2012/13 and 2013/14 are shown in Appendix 1.

5.2 These projections take into account the budget from 2012/13 updated for inflation, changes to accommodate the new level of debt taken on, and proposed increased rent income together with the other proposed adjustments which are described more fully below.

5.3 The estimated outturn for 2013/14 shows a balanced budget. This includes a contribution of £346,060 to a specific reserve introduced from 2012/13 for new development and refurbishment of Adur Homes' dwellings (see 14.4).

6.0 RENT SETTING FOR 2013/14

6.1 In 2002/03, as part of its Social Rent Reforms in the Local Authority sector, the Government introduced a mechanism to standardise the process for calculating rents.

6.2 The rent restructuring convergence policy objectives were that:

(a) social rents should remain affordable and well below those in the private sector

(b) social rents should be fairer and less confusing for tenants

(c) there should be a close link between rents and the qualities which tenants value in properties

(d) differences between the rents set by local authorities and Registered Social Landlords (RSL) should be removed.

6.3 In regard to 4.2(d) above, the Government's national social rent policy up to 2012/13 was that rents in the council housing sector should converge with those charged by housing associations by 2015-16, followed by rent rises at Retail Price Index plus 0.5% per year after this, in line with housing associations.

6.4 Since the start of 2012/13 there has been no further guidance to amend or re-affirm this policy, although the DCLG self-financing valuation business model was based on assumptions that all councils would follow the government's rent policy of rent convergence by 2015-16 in the base scenario of the model. To meet the rent convergence assumptions the average rent increase would be 5.2%.

This year's proposed average rent level

6.5 In line with DCLG guidelines for rent restructuring the actual average rent approved for in 2012/13 chargeable to tenants was £82.03**,** an increase of 7.7% on 2011/12. For 2013/14 the **recommended charge** is £84.57, an increase of 3.1% on the previous year. This year's increase is in line with the uplift proposed by Registered Social Landlords (RSL's) allowing for RPI inflation of 2.6% plus 0.5%.

6.6 The Council has more freedom on the level of rents it decides to set this year and in future years but this will need to be considered in parallel with investing and maintaining the housing stock and ensuring a sustainable business plan for future years. A 3.1% increase ensures that we can meet these requirements in the medium term and also ensures that we do not move too far from RSL rents. A 1% reduction or increase in rent levels is equivalent to £112,000.

Garage Rents

6.7 Garage rents were increased by 2% in 2012/13 to £8.50 per week (plus VAT for non-Council tenants). It is proposed that the garage rents be again increased in 2013/14 by 2% to £8.67. These proposals will generate an extra £9,030 in income.

7.0 DEBT FINANCING COSTS

7.1 The HRA financing costs in 2013/14 relate to interest and MRP on borrowing attributable to the HRA at the transition date of £17.491m, plus that relating to the self-financing settlement payment of £51.185m, plus any new borrowing for 2013/14. The budgeted costs are:

2013/14 Budget	Interest £000	MRP £000	Total
Historic debt	1,001	437	1,438
Settlement Debt	1,525	1,280	2,805
2013/14 Borrowing	306	283	589
Total Budget	**2,832**	**2,000**	**4,832**

7.2 The combined budget of £4.832m is nearly 5% below the budget set for 2012/13 of £5,066m. This recognises the combined impact of reduced interest costs on a lower settlement payment than expected before the start of 2012/13, plus lower depreciation charges on fixed assets, which are applied as a contribution from the HRA to the Major Repairs Reserve to fund MRP.

8.0 REPAIRS AND MAINTENANCE

8.1 The condition of housing stock is maintained and improved in two ways:-

- Routine revenue repairs of a day-to-day nature and by planned maintenance such as repainting or boiler servicing.
- Capital investment programme of refurbishment and improvement on a larger scale.

In recent years, the budget for repairs has been suppressed due to concerns about the overall financial position of the HRA, which had been in deficit for some years. When setting the 2012/13 budget a year ago The Executive Head (Adur Homes) identified that the 2011/12 budget was insufficient for the emerging needs and should be increased by £300,000 per year. With the change to the new regime, the opportunity was taken to reassess the budget allocated to maintenance, resulting in a 5% increase year on year. This is 3% higher than the expected inflation and will gradually build up the budget to more sustainable levels.

8.2 Revenue Repairs

8.2.1 The Council operates an earmarked reserve, the Housing Repairs Account, which receives annual contributions from the HRA towards the cost of repairs. These contributions are used to meet the actual expenditure on revenue repairs, which are also charged directly into the reserve. This approach was intended to mitigate the year on year volatility in repair costs that might otherwise fall directly on the HRA (and tenants) as the accumulated balance on the reserve may be used to meet fluctuations in expenditure.

8.0 REPAIRS AND MAINTENANCE

8.2 Revenue Repairs

8.2.2 Although the Housing Repairs Account has served its purpose well in previous years, its operation is voluntary under the accounting code of practice, and gave rise to discussions with the external auditors during the closure of 2011/12 Statements of Accounts. In particular the auditors queried whether the transfers to and from the reserve provided the most direct and understandable accounting approach from the perspective of the reader of the accounts. Following further consideration to this point, and given there is a balance of just £229k on the reserve at 31 March 2012, your officers are mindful to propose that the Housing Repairs Account be closed before the end of 2012/13 financial year, with the balance transferred into the HRA Reserve. Consequently, it is proposed that revenue repairs expenditure be charged directly to the HRA, with no further contributions and transfers to and from Housing Repairs Account.

8.2.3 Officers are therefore recommending that the previously approved budgeted contribution to the Housing Repairs Account for 2012/13 of £2,305,000 be vired into the HRA to meet the direct costs of repairs. A direct charge for revenue repairs and maintenance of £2,412,900 is proposed for 2013/14. This is an increase of 4.7% on the contribution budgeted for 2012/13.

8.3 Housing Capital Investment Programme

8.3.1 The capital investment programme is currently for refurbishment and improvement on a larger scale for schemes such as new central heating and double-glazing.

8.3.2 Under the new Self-Financing arrangements the Council will no longer receive a Major Repairs Allowance. Future investment in the council housing stock will need to be funded from:-

(i) Revenue contribution to capital expenditure;

(ii) The Major Repairs Reserve, which will increase each year by a contribution from the HRA equivalent to the depreciation charge on the use of fixed assets. This contribution is ring-fenced for repayment of debt or for direct financing of capital and maintenance expenditure; and

(iii) Prudential borrowing (subject to affordability), but must be contained within the Debt Ceiling of £68.912m set by Central Government (Para 3.6 refers). Any borrowing for new capital investment purposes from 2012/13 onwards is reliant on paying off a proportion of existing debt This is why it is important to make annual MRP to repay debt, as it will create headroom for new borrowing.

8.0 REPAIRS AND MAINTENANCE

8.3 Housing Capital Investment Programme

8.3.3 The capital programme for 2013/14 was approved at £3.05m by the Joint Strategic Committee at its meeting of 29 November 2012. Additional capital expenditure of £1.4m is also anticipated in 2013/14 arising from slippage in prior year schemes, making the expected total of £4.45m. For future years the level of capital investment is just over £3m. These amounts recognise the continuing need to meet the decent homes standard and the requirement to properly invest in Council Homes.

8.3.4 Capital expenditure for the 2012/13 capital programme is projected to be approximately £2.7m against an original budget of £3.99m, with slippage on Fishersgate communal areas, and kitchen and bathroom improvements being significant elements of the underspend. More detailed capital budget monitoring is reported to the Joint Strategic Committee each quarter.

9.0 REVENUE CONTRIBUTION TO CAPITAL EXPENDITURE

9.1 A revenue contribution to capital expenditure has been a core resource in financing the Housing capital programme in previous years. With the changes brought about by the self-financing regime, the contribution was increased significantly in 2012/13 to £1.877m, and it is proposed a further 3.9% increase for 2013/14 making the total contribution £1.950m. The contributions in both years reflect a long-term strategy to fund a significant proportion of the proposed capital programme from revenue, thereby reducing the annual revenue cost of borrowing for the capital investment to the Housing Revenue Account. The full year cost implications for each £1m borrowed comprises:

	£
Interest based on 4% interest rate	40,000
Annual provision for the repayment of debt – repaid over 15 years	70,000
Total revenue implications	**110,000**

For each £1m borrowed the cost over a 15 year term would amount to £1.65m in total, some £650k more than the cost of a similar investment funded by revenue contribution.

10.0 MANAGEMENT COSTS

10.1 The HRA has benefited from a share in corporate savings (£33,000) due to a review of pension costs and a reduction in external audit fees

10.2 Last year savings of £222,000 were made for deleted posts in the HRA. Savings were also made due to the closure of local offices. Opportunities for savings efficiencies for Adur Homes general management are reviewed each year as part of the budget process and officers' view is that there are no opportunities in this current budgetary cycle.

11.0 SUPPORTED HOUSING

11.1 They are significant changes to how Supported Housing will be funded in the future. A report went to the Joint Strategic Committee in January 2013 - 'Funding for the Sheltered Housing service from 2013' This report details the options available to the Council due to the reduction in Supporting People (SP) funding for the Council's sheltered housing service, as a result of reductions in national government funding.

12.0 SERVICE CHARGES – CONTRACT PRICE INCREASES

12.1 As well as core rent charges, some tenancies are also subject to service charges as they receive services which are specific to their circumstances. These charges are made in line with actual costs. Contracts in respect of services to tenants, such as door entry maintenance and communal way cleaning, are normally subject to an annual Retail Price Index (RPI) or equivalent increase. This increase is passed on to tenants receiving those services by way of an equivalent increase in their weekly service charge. Some costs have to be retendered and not all increases are applied at the beginning of a financial year. This means that such increases cannot be incorporated into the annual rent increase process and additional costs are incurred in notifying tenants separately and amending Housing Benefit entitlements when such an increase arises.

12.2 Contract review dates are staggered throughout the year and there may be instances when a small increase needs to be applied to such a small group of tenants that it is not cost effective to apply the charge immediately. Members are therefore requested to delegate to the Executive Head of Adur Homes and the Executive Head of Financial Services in consultation with the Cabinet Member, Improved Customer Services, authority to defer such an increase to a more cost-effective date.

13.0 REALLOCATIONS OF SALARIES AND CENTRAL COSTS

13.1 All salaries, staff expenses, administration buildings and central support services are collated centrally within the Adur and Worthing Joint services and the Council's general fund budget. It is then re-allocated to services to show the full-cost of service provision. A more detailed explanation of this is included in the Budget Book for Adur & Worthing Councils. The Housing Revenue Account has benefited in recent years from savings achieved from joint shared support services. Last year the underspend on revenue outturn for support charges was £106,000. This year estimated savings in the Joint Strategic Committee are offset by inflation eroding any potential gains for the HRA.

13.2 Each year there will be some swings in allocations for the Housing Revenue Account from central support services. There will also be movement in allocation for Adur Homes staff charging to HRA capital projects. These costs are reviewed each year as part of the budget setting process.

14.0 LEVEL OF RESERVE BALANCES

14.1 HRA general reserve balances are forecast to be £2.079m at 1st April 2013 and 16% of total expenditure. This is over the target level explained in Para 14.2 below, but reflective of the emphasis placed in securing resources to underpin revenue operations and capital expenditure in future years.

14.2 In the General Fund a target level of balances of between 6-10% of net expenditure has been set. The general principles behind retaining a minimum target level of balances are similar for both the General Fund and HRA in that it should be sufficient to withstand foreseeable ‘worst case’ scenarios but not so large as to constitute unnecessary retention of tenants monies.

14.3 Therefore, in principle, given that the large majority of the costs and incomes of the HRA are relatively stable (or effectively fixed at the start of each year) it should be possible to operate on a reserve balance within the 6-10% range. However, the self-financing regime is still in its infancy so that future risks surrounding revenues and costs (including the impact of the impending welfare reforms and RTB regime) are uncertain. A cautious approach in the early years is justified in striving to provide adequate reserves to build capacity for the future as part of a longer term strategy.

14.4 The balanced budget for 2013/14 includes a contribution of £346,060 to the HRA New Development and Acquisition’ reserve that Members approved be established in 2012/13 for new development and acquisition of new Adur Homes’ dwellings. Any under-spend or surplus will be placed in this reserve over the next few years specifically to create capacity to take forward initiatives to increase the supply of affordable housing. The contribution in 2013/14 is part of the longer term strategy for delivering council housing in future.

14.5 Until 2011/12 the Major Repairs Reserve (MRR) has been fully utilised to fund in-year capital expenditure so that there has been no carry forward balances retained on the Balance Sheet. However, at 31 March 2012, a balance of £1.109m was retained on the MRR to be carried forward and used for funding slippage on the capital programme. This reflects the position that fluctuations may arise in expenditure each year depending on the capital programme, and the amounts of voluntary set aside for MRP for the repayment of debt. In any event, the 2013/14 budget has been prepared on the assumption that the MRR will be fully utilised by the end of 2013/14.

14.6 Although a balanced budget has been prepared, any underspends arising at the final revenue outturn for 2013/14 will be put forward for consideration by Members to decide how this may be set aside to the most appropriate Adur Homes reserve taking into account the demands of the service at that time. In keeping with previous years, it is proposed that any overspends at final revenue outturn will be drawn from the HRA General Reserve.

15.0 IMPACT ON FUTURE YEARS

15.1 Attached at appendix 4 is the 30-year financial forecast. The focus for the 2013/14 budget has been to ensure that the HRA financial health is maintained as we enter the second year of the self-financing regime. As with 2012/13, the budget for 2013/14 allows for a high level of investment in the maintenance of properties than has been afforded prior to the self-financing regime. The first priority for the new freedoms has to be the continued maintenance of the decent homes standards for the benefit of our existing tenants.

15.2 The financial plan assumes that rent increases will stay in line with inflation, but that the Council will be able to increase incrementally the amount allocated to the improvement and investment of our existing stock. However, over the next few years, new strategic choices for the HRA will begin to emerge which may be able to address some of the issues of supply of affordable homes in the district.

15.3 The financial strategy within the 30-year forecast includes an allowance for the repayment of the debt, such that headroom below the Debit Limit is created for new borrowing and is affordable. Over the next five years, the Council will be able to borrow to finance new initiatives as follows:

	2012/13	2013/14	2014/15	2015/16	2016/17
	£000	**£000**	**£000**	**£000**	**£000**
Opening CFR *	68,676	66,959	66,078	64,808	63,599
New borrowing	-	836	502	602	648
Debt repaid	(1,717)	(1,717)	(1,772)	(1,811)	(1,838)
Closing CFR	**66,959**	**66,078**	**64,808**	**63,599**	**62,409**
Debt Ceiling	**(68,912)**	**(68,912)**	**(68,912)**	**(68,912)**	**(68,912)**
Headroom for additional borrowing if supported by tenants	**(1,953)**	**(2,834)**	**(4,104)**	**(5,313)**	**(6,503)**

* *CFR is the underlying need to borrow and in the table above assumes all debt is drawn down in full in the year as planned in the capital programme. The Treasury Management Strategy contained in Appendix 5 includes a comparison of the CFR and the Debt Ceiling derived from projecting the current portfolio of borrowing.*

15.4 In view of the available headroom for new borrowing the Council could consider support for either a higher level of investment in our current housing stock or to increase the number of affordable homes available through the following:

1. Conversion of HRA shops to dwellings in difficult to let locations

2. Repurchase of previously owned Council dwellings (particularly leasehold flats)

15.0 IMPACT ON FUTURE YEARS

3. Purchase of empty properties from the private sector which are dilapidated or in need or repairs.

4. Building new homes

All of these options need to be explored in detail to ensure that they are financially viable. Indeed, the implications of changes to the Right to Buy government policies will need to be carefully considered prior to embarking on any project.

15.5 To bring all of these considerations together, it is proposed to refresh the Adur Homes business plan and incorporate into the plan an assessment of the future of the housing stock. This will also include an updated asset management plan which will validate the assumptions in the 30-year forecast about the capital programme and maintenance provision.

16.0 SUMMARY AND RENTAL OPTIONS

16.1 Increasing rents by an average of 3.1%, with other changes to the budget leaves the HRA in a strong financial position going forward, albeit that a number of risks alluded to in this report have yet to take effect or be quantified.

16.2 The national DCLG business plan for ‘self-financing’ was based on the assumption that guideline and formula rents will converge by 2015-16. In effect, the affordability of borrowing £51.185m (as assessed by government) is based on the key fact that the Council will follow the rent increase guidelines. Consequently, the Council has little option but to increase rents towards the required amount, and to this extent the uplift of 3.1% in keeping with that proposed by Registered Social Landlords (RSL’s) is not unreasonable.

16.3 The Council’s discretion on the level of rents it decides to set in future will need to be considered in parallel with the need to invest and maintain the housing stock, and ensure a sustainable business plan for future years that is truly “self-financing”.

16.4 Clearly, there remains the option of setting a lower rent increase, but this would result in a deficit which would have to be funded from the reserves, or saving elsewhere in services.

16.5 This Report will be put to the Adur Consultative Forum for consideration, who will be invited to attend the Cabinet to relay their views on the budgetary proposals for 2013/14.

17.0 LEGAL IMPLICATIONS

17.1 There are no legal implications arising from the proposed budget other than those relating to :

17.0 LEGAL IMPLICATIONS

(i) the use of capital receipts under Right To Buy regulations (Para 4.4 – 4.90), and emanating from the Local Authorities (Capital Financing and Accounting)(England) Amendment Regulations (SI 2012/711 & 2012/1324)

(ii) maintain borrowing with the imposed debt ceiling limit (Para 3.6) arising from the Limits on Indebtedness Determination issued under the powers conferred upon the Secretary of State by S168 to 175 of the Localism Act, 2011.

18.0 RECOMMENDATIONS

18.1 The Joint Overview and Scrutiny Committee is requested to note the proposed HRA budget for 2013/14 and refer any comments in respect of the recommended rent increases to the next meeting of the Cabinet

18.2 The Cabinet is recommended to:-

(i) consider and approve the Housing Revenue Account estimates

(ii) determine the level of associated rents and charges with effect from week one of 2013/14:-

(a) **Rents of Council Dwellings** – implement the progression towards restructured rents which equates to an average increase of 3.1% (£2.54) £84.57 per week (para. 6.5) (average rent presently £82.03 per week)

(b) **Rents of Council garages** – increase garage rents by 2% (see para. 6.7) to £8.67 (rent presently £8.50 per week, plus VAT for non-Council tenants)

(c) **Service Charges** - delegate to the Executive Head of Adur Homes and Executive Head of Financial Services in consultation with the Cabinet Member for Customer Services, the setting of the service charges (para. 12.2)

(iv) approve a contribution of **£346,060** to the earmarked reserve specifically for new development and refurbishment of council housing (para. 14.4)

(v) to approve the closure in 2012/13 of the Housing Repairs Account and the virement of the 2012/13 budget to the HRA to meet the cost of repairs in that year; with the retained balance on the Housing Repairs Account being transferred to the HRA General Balance.

(vi) To approve the HRA Treasury Management Strategy contained in Appendix 5.

SARAH GOBEY
Executive Head of Financial Services and Section 151 Officer

DAVID PANNELL
Executive Head of Adur Homes

Local Government Act 1972

Background Papers:

Reinvigoration the Right to Buy and one for one replacement – Consultation paper from the Department of Communities and Local Government

Laying the Foundations: A Housing Strategy for England

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SCHEDULE OF OTHER MATTERS

1.0 COUNCIL PRIORITY

1.1 This report acknowledges the need to link all Council priorities with resource allocation in order to meet and deliver those objectives.

2.0 SPECIFIC TARGETS

2.1 **(A)** Matter considered and no issues identified.
(B) Matter considered and no issues identified.

3.0 SUSTAINABILITY ISSUES

3.1 Well-balanced communities rely upon a diversity of accommodation being available, enabling residents to make housing choices based upon consideration of size, type, tenure and affordability. A vital component of this mixture is accommodation provided by social landlords and the Council is the largest provider of such accommodation in the Adur District. To keep this accommodation well-managed and in good repair, the Council needs a flexible, adaptable approach, albeit with a diminished local freedom to tailor local solutions to meet local needs.

4.0 EQUALITY ISSUES

4.1 Matter considered and no issues identified.

5.0 COMMUNITY SAFETY ISSUES (SECTION 17)

5.1 Matter considered and no issues identified.

6.0 HUMAN RIGHTS ISSUES

6.1 Matter considered and no issues identified.

7.0 FINANCIAL IMPLICATIONS

7.1 Contained within the report.

8.0 LEGAL IMPLICATIONS

8.1 Matter considered and no issues identified.

9.0 CONSULTATIONS

9.1 **(A)** Consultation is conducted with the Adur Consultative Forum

10.0 RISK ASSESSMENT

10.1 Matter considered and no issues identified.

11.0 HEALTH & SAFETY ISSUES

11.1 Matter considered and no issues identified.

12.0 PROCUREMENT STRATEGY

12.1 Matter considered and no issues identified.

13.0 PARTNERSHIP WORKING

13.1 Matter considered and no issues identified.

ADUR:
Housing Revenue Account Budget Report

APPENDIX 1

HOUSING REVENUE ACCOUNT		
	CURRENT ESTIMATE 2012/13	**ESTIMATE 2013/14**
	£	**£**
EXPENDITURE		
General Management	**2,266,050**	**2,383,740**
Special Services	**966,400**	**977,010**
Rent, Rates, Taxes & Other Charges	**20,290**	**20,700**
Contribution to Repairs Account	**2,305,000**	**-**
Repairs & Maintenance	**-**	**2,412,900**
Revenue Contribution to Capital	**1,877,330**	**1,950,000**
Provision for refurbishment and new build	**40,140**	**346,060**
Charges for Capital / Interest Repayment/Debt Management Expenses	**2,941,200**	**2,831,500**
Depreciation transfer to MRR Inc Non Op assets	**2,124,670**	**2,000,000**
Bad/Doubtful Debt	-	
TOTAL EXPENDITURE	**12,541,080**	**12,921,910**
INCOME		
Dwelling Rents	**(11,226,780)**	**(11,575,730)**
Non-Dwelling Rents	**(510,230)**	**(525,580)**
Heating Charges	**(98,460)**	**(100,430)**
Leaseholder's Service Charges	**(112,470)**	**(114,720)**
Other Service Charges	**(545,580)**	**(557,490)**
Contributions towards Expenditure	**(19,560)**	**(19,960)**
Interest Received	**(28,000)**	**(28,000)**
Transfer re: Shared Amenities	-	**-**
TOTAL INCOME	**(12,541,080)**	**(12,921,910)**
NET (SURPLUS)/DEFICIENCY	**-**	**-**
BALANCES		
1st April	**1,850,000**	**2,079,000**
Transfer balance from Housing Repairs A/c	**229,000**	
31st March	**2,079,000**	**2,079,000**

APPENDIX 2

MAJOR REPAIRS RESERVE		
	CURRENT ESTIMATE 2012/13	**ESTIMATE 2013/14**
	£	**£**
Balanced carried forward	**(1,109,000)**	**(1,109,000)**
Transfer from Revenue Account	**(2,124,670)**	**(2,000,000)**
MRP on opening CFR - Debt Repayment	**1,737,000**	**1,545,000**
Contribution to the Capital Programme	**387,670**	**1,564,000**
(SURPLUS) / DEFICIENCY	**(1,109,000)**	**0**

APPENDIX 4

HOUSING REVENUE ACCOUNT

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
EXPENDITURE										
General Management	2,384	2,443	2,504	2,567	2,631	2,697	2,764	2,834	2,904	2,977
Special Services	977	1,001	1,026	1,052	1,078	1,105	1,133	1,161	1,190	1,220
Rents, Rates, Taxes & Other Charges	21	21	22	22	23	23	24	25	25	26
OVERALL RUNNING COSTS	3,382	3,465	3,552	3,641	3,732	3,825	3,921	4,020	4,119	4,223
Annual Revenue Maintenance Costs	2,413	2,528	2,650	2,777	2,912	3,053	3,200	3,355	3,517	3,687
Revenue Contributution to Capital	1,950	2,439	2,561	2,676	2,790	2,899	3,005	3,106	3,206	3,303
Charges for Capital										
Depreciation	2,000	2,094	2,195	2,301	2,412	2,529	2,651	2,779	2,913	3,054
Interest payable										
Interest - on historic debt	1,001	988	974	974	974	974	974	974	974	974
Interest - on assumed debt	1,525	1,435	1,383	1,331	1,279	1,228	1,176	1,124	1,073	1,021
Contingency against interest rise (0.75%)	281	264	255	245	236	226	217	207	198	188
Interest - on capital programme	25	67	93	111	127	145	163	184	203	220
Debt Management Expenses	0	0	0	0	0	0	0	0	0	0
Contribution to Reserves	345	0	0	0	0	0	0	0	0	0
TOTAL EXPENDITURE	12,922	13,280	13,663	14,056	14,462	14,879	15,307	15,749	16,203	16,670
INCOME										
Dwelling Rents	-11,576	-11,891	-12,230	-12,577	-12,935	-13,303	-13,681	-14,070	-14,470	-14,881
Other Rents and Charges	-1,318	-1,361	-1,405	-1,451	-1,499	-1,548	-1,598	-1,651	-1,705	-1,761
Interest Received	-28	-28	-28	-28	-28	-28	-28	-28	-28	-28
Major Repairs Allowance	0	0	0	0	0	0	0	0	0	0
TOTAL INCOME	-12,922	-13,280	-13,663	-14,056	-14,462	-14,879	-15,307	-15,749	-16,203	-16,670
NET COST OF SERVICES	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

APPENDIX 4

HOUSING REVENUE ACCOUNT	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2030/31 £'000	2031/32 £'000	2032/33 £'000	2033/34 £'000
EXPENDITURE										
General Management	3,051	3,128	3,206	3,286	3,368	3,452	3,539	3,627	3,718	3,811
Special Services	1,252	1,282	1,314	1,346	1,381	1,415	1,450	1,486	1,525	1,563
Rents, Rates, Taxes & Other Charges	27	27	28	29	29	30	31	32	32	33
OVERALL RUNNING COSTS	4,330	4,437	4,548	4,661	4,778	4,897	5,020	5,145	5,275	5,407
Annual Revenue Maintenance Costs	3,865	4,052	4,248	4,454	4,669	4,895	5,132	5,380	5,640	5,913
Revenue Contributution to Capital	3,395	3,491	3,586	3,644	3,687	3,721	3,745	3,756	3,752	3,738
Charges for Capital										
Depreciation	3,202	3,357	3,519	3,689	3,867	4,054	4,250	4,456	4,672	4,898
Interest payable										
Interest - on historic debt	974	963	938	932	932	932	932	932	932	932
Interest - on assumed debt	969	918	866	814	763	711	659	607	556	504
Contingency against interest rise (0.75%)	178	169	159	150	140	131	121	112	102	93
Interest - on capital programme	239	260	292	336	384	435	488	547	612	679
Debt Management Expenses	0	0	0	0	0	0	0	0	0	0
Contribution to Reserves	0	0	0	0	0	0	0	0	0	0
TOTAL EXPENDITURE	17,152	17,647	18,156	18,680	19,220	19,776	20,347	20,935	21,541	22,164
INCOME										
Dwelling Rents	-15,304	-15,739	-16,186	-16,646	-17,119	-17,606	-18,106	-18,620	-19,149	-19,693
Other Rents and Charges	-1,820	-1,880	-1,942	-2,006	-2,073	-2,142	-2,213	-2,287	-2,364	-2,443
Interest Received	-28	-28	-28	-28	-28	-28	-28	-28	-28	-28
Major Repairs Allowance	0	0	0	0	0	0	0	0	0	0
TOTAL INCOME	-17,152	-17,647	-18,156	-18,680	-19,220	-19,776	-20,347	-20,935	-21,541	-22,164
NET COST OF SERVICES	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

HOUSING REVENUE ACCOUNT	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2030/31 £'000	2031/32 £'000	2032/33 £'000	2033/34 £'000
EXPENDITURE										
General Management	3,051	3,128	3,206	3,286	3,368	3,452	3,539	3,627	3,718	3,811
Special Services	1,252	1,282	1,314	1,346	1,381	1,415	1,450	1,486	1,525	1,563
Rents, Rates, Taxes & Other Charges	27	27	28	29	29	30	31	32	32	33
OVERALL RUNNING COSTS	4,330	4,437	4,548	4,661	4,778	4,897	5,020	5,145	5,275	5,407
Annual Revenue Maintenance Costs	3,865	4,052	4,248	4,454	4,669	4,895	5,132	5,380	5,640	5,913
Revenue Contributution to Capital	3,395	3,491	3,586	3,644	3,687	3,721	3,745	3,756	3,752	3,738
Charges for Capital										
Depreciation	3,202	3,357	3,519	3,689	3,867	4,054	4,250	4,456	4,672	4,898
Interest payable										
Interest - on historic debt	974	963	938	932	932	932	932	932	932	932
Interest - on assumed debt	969	918	866	814	763	711	659	607	556	504
Contingency against interest rise (0.75%)	178	169	159	150	140	131	121	112	102	93
Interest - on capital programme	239	260	292	336	384	435	488	547	612	679
Debt Management Expenses	0	0	0	0	0	0	0	0	0	0
Contribution to Reserves	0	0	0	0	0	0	0	0	0	0
TOTAL EXPENDITURE	17,152	17,647	18,156	18,680	19,220	19,776	20,347	20,935	21,541	22,164
INCOME										
Dwelling Rents	-15,304	-15,739	-16,186	-16,646	-17,119	-17,606	-18,106	-18,620	-19,149	-19,693
Other Rents and Charges	-1,820	-1,880	-1,942	-2,006	-2,073	-2,142	-2,213	-2,287	-2,364	-2,443
Interest Received	-28	-28	-28	-28	-28	-28	-28	-28	-28	-28
Major Repairs Allowance	0	0	0	0	0	0	0	0	0	0
TOTAL INCOME	-17,152	-17,647	-18,156	-18,680	-19,220	-19,776	-20,347	-20,935	-21,541	-22,164
NET COST OF SERVICES	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

APPENDIX 5

HRA TREASURY MANAGEMENT STRATEGY

1.0 INTRODUCTION

1.1 This Appendix sets out the HRA Treasury Management Strategy Statement for 2013-14. The requirement to produce a separate strategy specifically for HRA is a direct consequence of the introduction of the self-financing regime, as it reflects the underlying principle that borrowing and debt management decisions should operate equitably and independently from the General Fund. The first Strategy was presented to Cabinet a year ago for 2012-13, and this report updates the strategy for debt transactions and revisions to the capital programme that have arisen in the intervening period.

1.2 Underpinning all Treasury Management activity of the Council is the CIPFA Treasury Management Code of Practice, which was last revised in November 2011 to address the implications for introducing HRA Self-financing from 2012/13.

1.3 The published Code identified the need for local authorities "….to allocate existing and future borrowing costs between housing and General Fund as the current statutory method of apportioning debt charges between the General Fund and HRA will cease".

1.4 The Code set out options for doing this, in respect of which the Council's Treasury Management consultants Sector were invited to provide comment and analysis. The results were presented to Cabinet in the HRA Budget Report 2012/13 at the meeting of 7 February 2012, at which it was agreed to adopt CIPFA's "Two-Pooled Approach". This entailed allocating historic debt at 31 March 2012 between HRA and General Fund, with any new debt acquired after this date to be assigned to the HRA or General Fund according to the purpose for which it is acquired.

1.5 Additionally, the Strategy aims to achieve borrowing outcomes that are affordable, sustainable and prudent in keeping with the requirements of the Prudential Code for Capital Finance in Local Authorities. This Code requires the Council to consider the impact of borrowing as well as address a number of other fundamental principles, being:

(i) The splitting of loans (i.e. debt) at the HRA Settlement transition date must be of no detriment to the General Fund.

(ii) The Council is required to deliver a solution that is broadly equitable between the HRA and the General Fund;

(iii) Future charges to the HRA in relation to borrowing are not influenced by General Fund decisions, giving the HRA greater freedom, independence, certainty and control;

(iv) Un-invested balance sheet resources which allow borrowing to be below the CFR are properly identified between General Fund and HRA.

HRA TREASURY MANAGEMENT STRATEGY

1.6 Points (i) – (iii) above were addressed by adopting the “Two-Pool Approach”. The last point was approved in the Strategy to be met in accordance with the CIPFA Treasury Management code recommendation that the effect should be included in the interest on balances calculation to appropriately allocate the respective portions to HRA and General Fund.

1.7 With these background principles and approaches in place the HRA Treasury Management Strategy aims to cover:

- Overall Objectives
- The Current & Future Position – Underlying Need to Borrow compared to Actual Borrowing
- The Debt Maturity Profile & Headroom for New Borrowing
- How to allocate debt and attributable financing costs between HRA and General Fund equitably
- How to recognise HRA cash balances and reserves which form part of the Council’s total investments
- How to recognise any costs or revenues generated from Over/under borrowing

1.8 Accordingly, these aspects of the Strategy are approached in turn.

2.0 OVERALL OBJECTIVES OF THE HRA TREASURY MANAGEMENT STRATEGY

2.1 The central aim of the Strategy agreed for 2012/13 and unchanged for 2013/14 is:

- to provide borrowing that is affordable, sustainable and prudent, as required by The Prudential Code, and which underpins the requirements of the HRA Capital Investment Programme, 30 year Business Plan, and any other corporate plans.
- to manage the HRA investments and cash flows, its banking, money market and capital market transactions within the purview of the Council’s overall Treasury Management Strategy, and to provide effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
- to support budget and service delivery objectives for the benefit of tenants at no detriment to the General Fund or council taxpayers generally.

HRA TREASURY MANAGEMENT STRATEGY

3.0 THE CURRENT POSITION – UNDERLYING NEED TO BORROW COMPARED TO ACTUAL BORROWING

3.1 The underlying need to borrow for capital investment is called the Capital Financing Requirement (CFR) and relates to the amount of planned capital expenditure that is not financed from internal resources, which for HRA are primarily capital receipts, revenue contributions, and the Major Repairs Reserve.

3.2 Capital expenditure in any year above the amount allocated to be used from these resources must be financed from borrowing or other credit arrangement, and results in an increase to the CFR. By comparing the CFR to the amount of actual borrowing shows the extent to which the Council is under or over borrowed, and is a key prudential indicator. The current estimates based on the capital investment programme for the next three years is shown in the table below:

Adur District Council	2012/13 Estimate £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Capital Financing Requirement (CFR)					
General Fund	(12.619)	(12.029)	(12.892)	(13.026)	(12.828)
Housing Revenue Account	(69.167)	(66.959)	(66.078)	(64.808)	(63.599)
Total CFR	**(81.786)**	**(78.988)**	**(78.970)**	**(77.834)**	**(76.427)**
Actual Debt					
General Fund	13.193	13.203	13.193	12.973	12.970
Housing Revenue Account	68.724	66.688	64.983	62.993	61.287
Total Debt Amount	**81.917**	**79.891**	**78.176**	**75.966**	**74.257**
Over/(Under) Borrowing					
General Fund	0.574	1.174	0.301	(0.053)	0.142
Housing Revenue Account	(0.443)	(0.271)	(1.095)	(1.815)	(2.312)
Total	**0.131**	**0.903**	**(0.794)**	**(1.868)**	**(2.170)**
HRA Borrowing Headroom	**0.518**	**2.224**	**3.929**	**5.919**	**7.625**

(Note that the General Fund position is shown for comparative purposes as known at the point of writing this report, and any changes will be updated as part of the Annual Treasury Management Strategy Report for 2013/14-2015/16 to be presented before the end of 2012/13).

HRA TREASURY MANAGEMENT STRATEGY

3.0 THE CURRENT POSITION – UNDERLYING NEED TO BORROW COMPARED TO ACTUAL BORROWING

3.3 The comparison shows the HRA is under borrowed at the end of 2012/13 by £271k, reflecting the amount by which debt outstanding has reduced (£1.989m) over and above the reduction in MRP (£1.718m) during the year. In the following years the amount by which actual borrowing is below CFR increases as the amount of debt repaid and MRP provided for in each year exceeds the amount of new borrowing anticipated to fund capital investment.

3.4 The propensity to bring actual borrowing into line with the CFR depends on the ability to stay within the HRA Debt Limit of £68.912m imposed by Central Government. This is examined in the next Section. Any new borrowing undertaken will be to underpin the Capital Programme, the proposals for which were last reported to the meeting of the Joint Strategic Committee on 29 November, 2012.

4.0 THE DEBT MATURITY PROFILE AND HEADROOM FOR NEW BORROWING

4.1 The last row of the table in the preceding section compares the existing debt profile with the Debt Ceiling Limit of £68.912m at the start of the Self-Financing regime. The amount by which actual borrowing is below the limit provides "Headroom" for new borrowing to fund capital expenditure. For each of the years to 2015/16 the headroom is more than sufficient to allow new borrowing to occur to bring total indebtedness in line with the underlying need to borrow as measured by the CFR.

4.2 The actual borrowing profile of the existing debt portfolio over the 30 years from 2012/13 is illustrated graphically at the end of this Strategy document to show the increasing headroom that exists for future borrowing to fund new capital expenditure.

5.0 HOW TO ALLOCATE DEBT AND ATTRIBUTABLE FINANCING COSTS BETWEEN HRA AND GENERAL FUND EQUITABLY – THE TWO POOLED APPROACH

5.1 The methodology adopted in the Strategy draws upon CIPFA guidance relating to the two pooled approach, the essence of which is:

– to disaggregate historic debt at the HRA Debt Settlement transition date by the CIPFA methodology and allocate the respective portions to the HRA and General Fund. To each share is added new debt arising after the transition date according to the purpose for which it was incurred.

HRA TREASURY MANAGEMENT STRATEGY

5.0 HOW TO ALLOCATE DEBT AND ATTRIBUTABLE FINANCING COSTS BETWEEN HRA AND GENERAL FUND EQUITABLY – THE TWO POOLED APPROACH

5.2 In adopting this methodology, the Council was mindful of its Treasury Management Consultant's comments that "The two pool approach is the preferred option by CIPFA and DCLG. It is relatively simple and allows the HRA to present a preferred funding structure to the Treasury Management team. It allocates a greater proportion of fixed rate borrowing to the HRA, which may suit its needs as it provides a greater degree of certainty over initial costs".

5.3 Another reason for adopting the two pool approach was that an assessment was made of the impact of the resultant financing costs at transition on the HRA and it was concluded that it the effect was negligible.

5.4 For historic debt at the transition date, the two pooled approach assumed the HRA is fully borrowed at the level of its CFR, with the residual debt attributed to the General Fund. Thus, any over borrowing at that date was attributed to the General Fund, rather than shared with the HRA. The effect at 31 March 2012 of applying the two pooled approach was:

CFR Allocations at Transition Date		**Debt Allocations at Transition Date**	
	£000		**£000**
HRA	68,676	HRA	68,676
General Fund	11,160	General Fund	13,430
TOTAL	**79,836**	**TOTAL DEBT**	**82,106**

6.0 HOW TO RECOGNISE HRA CASH BALANCES AND RESERVES WHICH FORM PART OF THE COUNCIL'S TOTAL INVESTMENTS

6.1 The former subsidy system provided for a statutory determination – the Item 8 credit – to attribute interest on notional average HRA cash balances to the HRA Comprehensive Income and Expenditure statement.

6.2 This recognised the general principal that the HRA should benefit from its cash balances and reserves, and the introduction of the self-financing arrangements did not alter this principle.

6.3 The Strategy adopts the CIPFA recommended approach for all investments to be pooled, since it is states that the "interest on cash balances calculation can be used to manage the charge between HRA and General Fund". Accordingly, to do this the Strategy retains the use of the notional average cash balance approach used within the former Statutory Item 8 calculation as the basis for crediting the HRA share of interest receivable.

HRA TREASURY MANAGEMENT STRATEGY

7.0 HOW TO RECOGNISE ANY COSTS OR REVENUES GENERATED FROM OVER/UNDER BORROWING

7.1 In practice it is recognised that there will be timing differences between the Council's underlying need to borrow (the CFR) and actual borrowing.

7.2 Where under borrowing occurs, the Council is drawing upon internal reserves and balances to fund capital expenditure, and therefore bears the cost of interest foregone on the amount of cash consumed that might otherwise be invested.

7.3 Conversely, where over borrowing occurs surplus cash to requirements is held that forms part of surplus cash available for investment. This may arise where borrowing for capital expenditure is undertaken in advance of actual expenditure to take advantage of low interest rates.

7.4 In both scenarios the CIPFA Treasury Management code states that the effect should be included in the interest on balances calculation to appropriately allocate the respective portions to HRA and General Fund.

7.5 Accordingly, the Strategy adopts the approach whereby the relevant credit or debit shall be computed with reference to the difference between the HRA and General Fund CFR and the respective actual debt during the year. Where an Over-borrowing position occurs interest shall be credited according the average rate of interest on all investments prevailing for the period during which the over borrowing was sustained. For an under-borrowed position, interest shall be charged to reflect the interest foregone through consumption of internal resources and at the average rate of all investments achieved during the period of under borrowing.

HRA Debt Repayment Profile Compared with Debt Ceiling 2013-2042