Executive
8th February, 2015
Agenda Item No: 4

HOUSING REVENUE ACCOUNT – BUDGET 2016/17

REPORT BY DIRECTOR FOR DIGITAL AND RESOURCES AND DIRECTOR FOR COMMUNITIES

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 2016/17. The report also considers some of the issues emerging from 2017/18 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 2016/17.

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 separate from all 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 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 and most recently limitations on the level of rent that can be levied.

2.4 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 a thirty year financial Business Plan showing how the HRA could be run on a self-financing basis. This report updates the Financial Business Plan and informs members of the key budgetary assumptions which underpin the financial projections from 2016/17 onwards.

2.5 The challenge of creating a sustainable business plan was made more difficult by the announcement in the Summer by the Chancellor that:

> '…..we are also going to end the ratchet of ever higher housing benefit chasing up ever higher rents in the social housing sector. These rents have increased by a staggering 20% since 2010. So rents paid in the social housing sector will not be frozen, but reduced by 1% a year for the next four years.

2.0 INTRODUCTION

This will be a welcome cut in rent for those tenants who pay it and I'm confident that Housing Associations and other landlords in the social sector will be able to play their part and deliver the efficiency savings needed.'

Speech to the House of Commons by The Chancellor
The Rt Hon George Osbourne MP

2.6 The setting of rent levels is now an integral part of the financial planning decision making process. However, the council will have little flexibility over rent setting over the next 5 years. Officers are recommending a reduction of 1% in line with the requirements of the draft Welfare Reform and Work Bill.

2.7 In April 2014 an Adur Homes Management Board (AHMB) was set up to oversee the delivery of, the strategic objectives for Adur Homes. Members of the Board include 2 Adur Councillors and 2 representatives from the Adur Consultative Forum. The proposed rental decrease and growth items in this report were agreed by the AHMB at its meeting in January.

2.8 Adur Consultative Forum members will be invited to attend the Executive meeting to relay their views on the budgetary proposals.

3.0 RISKS AND CHALLENGES REGARDING RIGHT TO BUY (RTB) AND REFORM OF HOUSING BENEFITS

3.1 Council housing stock numbers are as follows:

	2014/15	2015/16 (Estimate)	2016/17 (Estimate)
Stock at 1st April	2,631	2,617	2,603
Plus: Additions - Note(1)	2	2	5
Less: Right to Buy sales	16	16	16
Less: Disposals	0	0	0
Stock at 31st March	**2,617**	**2,603**	**2,592**

Note (1:) *These additions are generated through the repurchase of previously owned council dwellings or through the construction of new dwellings, and over time is intended to increase the housing stock to offset the impact of dwellings sold under Right To Buy.*

3.2 For 2016/17 the signs are that interest from tenants in the possible take up of RTB sales continues at a constant level. The propensity for sales to further increase is therefore real, although the consequential loss of rental income from these sales may in future be partly mitigated by the aim to purchase or develop additional dwellings each year.

3.0 RISKS AND CHALLENGES REGARDING RIGHT TO BUY (RTB) AND REFORM OF HOUSING BENEFITS

3.3 A depleting housing stock base means that the fixed costs per property increase and rental income available to fund these costs reduces. The level of capital receipts retained by the Council to replace the reducing housing stock base is limited due to the increase in the level of discount offered and the DCLG restrictions placed under the new RTB arrangements. Underpinning this constraint were the following principles contained in the 2012 CLG publication “Reinvigorating Right To Buy and One For One Replacement – Information for Local Authorities”

3.4 The RTB scheme applies to all secure tenants who have been tenants for more than 5 years. The maximum percentage discount for a property is 70% (the current maximum discount is £77,900). The cash cap increases in April every year in line with the Consumer Price Index.

3.5 As a condition of being able to retain capital receipts arising from RTB sales, the Council entered into an agreement with the Secretary of State in 2012 whereby:

(i) the retention of receipts only applies to the RTB sales above the number assumed each year in the HRA self-financing settlement. For Adur the original 75% central pooling arrangement continued for the first 4 properties sold post 1 April 2012, and thereafter is calculated in accordance with a CLG formula

(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%.

3.6 Properties may be built by Adur Homes or another Registered Provider. Receipts from RTB will have to start to be returned from October 2015 if we cannot allocate the receipts to any new homes.

3.7 The Welfare Reform Act received Royal Assent in 2012 and introduced 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, and is being trialled in a number of areas, the planned national implementation for new claimants and those with a change of circumstances has been delayed. The introduction is being staggered and not expected to be fully complete until 2019. Early experience suggests that the reforms will increase the financial pressures on some of the most vulnerable people of society, due to the introduction of caps on the amount of weekly benefit, including further reductions for under occupation.

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

3.8 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. Universal Credits will be paid directly to claimants rather than the current arrangement of direct payment to the Local Authority as landlord. Hence the decision that benefit is to be spent on rent, as opposed to other expenditure, is in the hands of the individual recipient.

3.9 The current number of tenants affected by the under occupation charge is 158. This is a reduction of 6 since the previous year. This will be due to a number of reasons, such as: moving into employment; transferring to a smaller property; no longer being of working age (i.e. 62 and over); or moving into a private property. However, data is not recorded to identify how this is broken down. It should also be noted that 6 tenancies represents a net reduction, and over the past year some households would have become eligible for the under occupation charge as well as other households falling out of eligibility. This would be countered somewhat through the natural turnover of voids, meaning that under occupation is a risk that is identified at the pre-tenancy stage.

3.10 Data from CenSus indicate that approximately 69% of Adur Homes tenants are in receipt of benefits, and that 158 tenants are affected by the under occupation charge, (131 will lose 14% of their Housing Benefit and 27 will lose 25%). Some tenants will choose to manage this reduction from within their own resources, whilst others may seek alternative housing options. In the past year 6 Adur Homes tenants tenants have downsized to a smaller property.

3.11 In the year up to (and including December 2015), a total of 31 Adur Homes households have been assisted by a Discretionary Housing Payment. Again, the data does not record whether this as due to rent arrears caused through the under occupation charge, but as one of the options to reduce the impact on households, it is reasonable to assume that it would include people who had arrears due to having one or more bedroom unoccupied. It should be remembered that a Discretionary Housing Payment is a short term solution, and may be used on a temporary basis whilst other options are progressed.

3.12 The under occupation charge will continue to present a challenge for 2016/17, and although there are some options, such as those referred to in 3.10. Furthermore, changes to welfare benefits and the introduction from 1 April 2015 of Universal Credit for all new single claimants, presents a risk that more households will fall into arrears. This will impact on the levels of rent collected and subsequently the overall position of the Housing Revenue Account. Since 1 April 2015 (to date) there have been two tenancies terminated for arrears. although none of these were due to the under occupation charge. (Between 1 April 2014 and 31 March 2015 there were six tenancies terminated for arrears).

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

3.13 Some mitigation is in place to reduce tenants arrears from growing, with a greater emphasis on tenancy sustainment being introduced through the role of Tenancy Sustainment Officer. This year, this post has prevented 26 households from becoming homeless. Additionally, the implementation of Introductory Tenancies provides the opportunity to support new households, which includes financial support to prevent people from falling into arrears. This is incorporated as an item for growth (10.2).

4.0 THE HOUSING REVENUE ACCOUNT FOR 2016/17

4.1 The projected expenditure and income for the HRA in 2016/17 is as follows:-

	Estimate 2016/17
	£'000
Expenditure	13,359
Income	-13,359
Net (Surplus)/Deficit for the year	0
Proposed contribution to /(from) reserves	0
Overall position for the year	0
Balance brought forward 1st April, 2016	-2,172
Balance carried forward 31st March, 2017	**-2,172**

More detailed estimates for the Housing Revenue Account for 2015/16 and 2016/17 are shown in Appendix 1.

4.2 These projections take into account the budget from 2015/16, which has been updated for inflation, capital financing costs in respect of debt, and proposed decrease in rent income together with the other proposed adjustments which are described more fully below. Overall the main changes are as follows:

Expenditure:	**£'000**
2015/16 budget	13,591
Impact of inflation	229
Growth in salary budgets due to introduction of new posts (see section 10)	113
Impact of a new fraud service	20
Review of the Treasury Management budgets - Fall out of interest costs following the repayment of debt	-331
Reduction in contribution to New Acquisition and Development Reserve	-255
2016/17 budget	**13,359**

4.0 THE HOUSING REVENUE ACCOUNT FOR 2016/17

Income:	**£'000**
2015/16 budget	-13,591
Loss of income from Cecil Norris House	50
Impact of Right To Buy disposals on rental income	50
Closure of the hostel at 7 Albion Street	25
Impact of 1% rent decrease	125
Adjustment to service charges to reflect latest costs	18
Other rental increases detailed below	-36
2016/17 budget	-13,359

4.3 The 2016/17 budget shows a break-even position. This is despite a rent reduction of 1% costing the Council £0.35m in real terms in the first year. To achieve this position the currently level of contributions to reserves has been reviewed and the treasury management strategy has been revised. Looking ahead to 2017/18, the challenge of reducing rental income will become ever harder, with a need for services to be delivered as efficiently as possible.

5.0 RENT SETTING FOR 2016/17

5.1 In June 2014 the Adur Homes Management Board approved an Adur Homes rent policy. Part of the policy took into consideration a published DCLG consultation document 'Guidance on Rents for Social Housing'

The Adur Homes policy stated the following:-

The Council will continue to charge 'social rents' for existing Council properties. For a 10-year period beginning 2015/16, we will comply with the CLG policy of annual increases for social rents to be no more than the Consumer Price Index rate at September each year +1%.

5.2 However, earlier this year the Chancellor announced that for the next four years rent is the social housing sector would be reduced by 1%, thereby ending the flexibility introduced by DCLG only a year earlier. The legal provision to enforce this change is contained within the draft Welfare Reform and Work Bill.

5.3 The Council has recently received notification from the DWP that the requirement to reduce rent income by 1% may not apply to supported housing for 2016/17 which may be allowed to increase rent up to 0.9% (CPI + 1%). However, until the Bill is passed there is a degree of uncertainty regarding the final requirements for rent income.

5.4 In 2015/16 the rent increase was set at 2.2%, raising the average council dwelling rent by £1.98 to £92.00 per week.

5.0 RENT SETTING FOR 2016/17

5.5 Formula target rents were introduced as part of 2002/03 social rent reforms. Although this policy has been replaced, formula target rents continue to have important financial implications for Adur Homes. The £51.2m cost to 'buy- out' of the old subsidy regime and move to self-financing was based on a DCLG financial business model that assumed rents were set at the formula target rent. The average formula rent for 2016/17 is calculated at £100.19.

5.6 Adur continues to lag behind on formula target rent. The current average gap between formula and actual rent is significant. As a rough guide if all properties were on average £9 below the formula rent the income shortfall represents £1.2m. The new policy of reducing rents by 1% for the next few years will widen this gap further and the Council will not be able to address this until 2020/21 at the earliest.

<u>This year's proposed average dwelling rent level</u>

5.7 The **average rental decrease recommended** for 2016/17 is in line with the Welfare Reform and Work Bill. The required rental increase is 1%**.** This will decrease the average rent by £0.92 from £92.00 to **£91.08.** This rent reduction will apply to all current tenants with the possible exception of those in supported housing.

5.8 Given the uncertainty surrounding the possible rental increase for supported housing within the new legislation, it is proposed that the decision regarding this increase is delegated to the Head of Housing in consultation with the Cabinet Member for Customer Services

5.9 The proposed average increase is estimated at being below the Rent Rebate Subsidy Limitation (RRSL) limit. The RRSL limit is the maximum average rent that may be charged before housing benefit payments need to be subsidised by the HRA. At the time this report was being produced the Department of Works and Pensions has not published the RRSL limit rents for 2016/17, the current limit for Adur is £96.11.

5.10 It is intended to relet vacant properties to new tenants at target rent. This policy will not be applied to transfers or mutual exchanges.

5.11 However, the government policy of reducing rents by 1% per year for the next four years will result in a significant amount of lost income for the HRA.

	Forecast 2016/17	**Forecast 2017/18**	**Forecast 2018/19**	**Forecast 2019/20**	**Forecast 2020/21**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Impact of 1% reduction for 4 years					
Income with 1% decrease	-12,247	-12,125	-12,004	-11,884	-12,359
Income with CPI + 1% increase	-12,594	-12,972	-13,361	-13,762	-14,174
Income lost due to rental limitation	**347**	**847**	**1,357**	**1,878**	**1,815**

5.0 RENT SETTING FOR 2016/17

Garage Rents

5.12 Garage rents were increased by 2.2% (CPI + 1%) in 2015/16 to £9.03 per week (plus VAT for non-Council tenants). It is proposed that the garage rents be increased in 2016/17 by 5% to £9.48. These proposals will generate an extra £19,700 in income.

In 2016/17 it is intended to do a fundamental review of the garage charing policy.

6.0 DEBT FINANCING COSTS

6.1 The debt financing costs chargeable to HRA in 2016/17 relate to interest payments and Minimum Revenue Provision set aside for the repayment of the debt.

The table below provides analysis of this:

i) historic debt of £17.491m in existence at 1 April 2012 (less any subsequent repayments) attributable to the HRA via the "two-pool split" of the Council's total debt at that date;

ii) debt incurred in 2012 to pay the HRA self-financing settlement payment of £51.185m, for which there will be a balance of £44.36m outstanding at 31 March 2016;

iii) new borrowing for capital expenditure.

6.2 The budgeted costs are:

2016/17 Budget	Interest £000	MRP £000	Total
Historic Debt	974	423	1,397
Settlement Debt	1,348	1,294	2,642
2016/17 Borrowing	0	0	0
Total Budget	**2,322**	**1,717**	**4,039**

7.0 REPAIRS AND MAINTENANCE

7.1 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.

7.0 REPAIRS AND MAINTENANCE

7.2 The budget for routine repair and maintenance has been increased by 2% which is 1.3% above inflation.

7.3 **Housing Capital Investment Programme**

7.3.1 The capital investment programme typically comprises refurbishment and improvement on a larger scale for schemes such as new central heating and double-glazing as well as new hosing development schemes.

7.3.2 Future investment in the council housing stock is funded from:-

(i) revenue contributions to capital expenditure;

(ii) the Major Repairs Reserve. This will increase each year by an accounting adjustment for the amount of depreciation charged to the HRA (£2.2m). This contribution is ring-fenced for repayment of debt or for direct financing of capital and maintenance expenditure. This was a transitional arrangement granted by CLG to assist local authorities for the first 5 years of self-financing. There has been no update from central government about whether this accounting arrangement will be allowed to continue after 2017/18; and

(iii) prudential borrowing (subject to affordability), but overall borrowing must be contained within the Debt Ceiling of £68.912m set by Central Government.

8.0 ADUR HOUSING INVESTMENT PROGRAMME

8.1 The HRA capital renovation programme for 2016/17 was approved at £4.6m by the Joint Strategic Committee at its meeting of 3rd December, 2015 at which it was reported that :

The estimated resources are sufficient to fund all the proposed schemes.

The first priority is the continued maintenance of decent homes standards for the benefit of existing tenants.

The decent homes standard requirement is that homes:-

a) meet the current statutory minimum standard for housing

b) are in a reasonable state of repair

c) have reasonably modern facilities and services

d) provide a reasonable degree of thermal comfort.

It should be noted that a stock condition survey is being undertaken in 2016/17. This will inform and develop future strategy and budget planning for the capital programme in future years and this may change the current assumptions made in the financial business plan (Appendix 2).

8.0 ADUR HOUSING INVESTMENT PROGRAMME

8.2 The programme also included an allowance for developing New Homes (£0.4m) as well as funding for the initial work on the redevelopment of Cecil Norris House (£0.5m).

8.3 In 2016/17 it is planned to do a detailed analysis of both the revenue maintenance spend and the capital spend to ensure that expenditure is targeted effectively.

9.0 REVENUE CONTRIBUTION TO CAPITAL EXPENDITURE

9.1 A revenue contribution to capital expenditure has been intended as a core resource in financing the Housing capital programme. The revenue contributions reflects a long-term strategy to fund a significant proportion of the proposed capital programme directly from revenue, thereby reducing the annual revenue cost of borrowing for the capital investment to the Housing Revenue Account.

The annual cost implications for each £1m borrowed comprises:

	£
Interest Charges based on 4% interest rate	40,000
Annual provision for the repayment of debt – repaid over 40 years	25,000
Total Revenue Cost Implications	**65,000**

9.2 Due to various factors there has been significant slippage in the capital programme since self financing was introduced. This has meant that although we have budgeted for borrowing to finance the capital programme it has not been necessary to do so generating significant in-year savings to the HRA. It is proposed that any surplus savings arising from this temporary situation will be set aside as for a future revenue contribution to capital. The revenue contribution to capital for 2016/17 will be £207,190.

10.0 GROWTH ITEMS

10.1 In line with the recent December report to JSC 'Getting in Shape' the Head of Housing has undertaken an organisational review of staff structures for Adur Homes.

10.2 Staff consultation has finished and staff are being appointed to their new roles. Overall growth in salaries will be £113,000 which has been included in the salaries budget. As part of the restructure, 3 new roles have been created

	£
Introductory Tenancy Officer	36
Voids and Lettings Officer	36
Capital Projects Officer	41
Total	**113**

In addition to the new roles, both pension costs and national insurance payments have increased over the past year.

10.0 GROWTH ITEMS

10.3 The HRA has recently commissioned Worthing Borough Counter Fraud team to undertake work on its behalf. This work comprises of two main strands:

(i) Initiatives to tackle tenance fraud;

(ii) Review of Right to Buy applications to ensure that only eligible tenants are allowed to purchase a property.

To date this work has been very successful resulting in 2 Right To Buy applications being refused saving the Council £150,000 in discounts, and one property has been returned to the Council due to tenancy fraud. The cost of this work is £20,000 per year.

11.0 SERVICE CHARGES – CONTRACT PRICE INCREASES

11.1 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.

11.2 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 Head of Adur Homes and the Chief Financial Officer in consultation with the Cabinet Member, Customer Services, authority to defer such an increase to a more cost-effective date.

12.0 REALLOCATIONS OF SALARIES AND CENTRAL COSTS

12.1 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 and Worthing Councils. The Housing Revenue Account has benefited in recent years from savings achieved from joint shared support services.

12.2 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, in addition if the capital programme is not completed this budgeted cost will materialise into an overspend at year in the final outurn. These costs are reviewed each year as part of the budget setting process.

13.0 LEVEL OF RESERVE BALANCES

13.1 In line with a more sustainable long term business approach the HRA is adopting a prudent approach to the level of reserves maintained.

Reserves	Forecast Balance at 01/04/16	Increase	Decrease	Forecast balance at year end 2015/16
	£000's	**£000's**	**£000's**	**£000's**
Housing Revenue Account	2,172	-	-	2,172
Discretionary Assistance Fund	50	-	-	50
New Development and Acquisition Fund	822	311	900	233
Major Repair Reserve	776	2,200	2,890	86
TOTAL	**3,820**	**2,511**	**3,790**	**2,541**

13.2 HRA general reserve balances are forecast to be £2.172m at 1st April 2016 and 16% of total expenditure. This is over the target level explained in Para 13.3 below, but reflective of the emphasis placed in securing resources to underpin revenue operations and capital expenditure in future years.

13.3 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.

13.4 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 relatively new so that future risks surrounding revenues and costs (including the impact of the impending welfare reforms and RTB regime) are uncertain. Also, given the uncertainty of costs and timings relating to the Council's new build proposals 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.

13.5 The balanced budget for 2016/17 includes a proposed contribution of £311,060 to the HRA New Development and Acquisition Reserve. It is intended that a proportion of 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.

13.6 Any balance in the Major Repairs Reserve (MRR) is utilised to fund in-year capital expenditure. The final position at year end may fluctuate as if any slippage occurs within the capital programme. Altogether, the 2016/17 capital budget includes provision for £2.9m to be utilised for financing HRA capital expenditure, comprising the carried forward balances and in-year contributions.

13.0 LEVEL OF RESERVE BALANCES

13.7 Although a balanced budget has been prepared, any underspends arising at the final revenue outturn for 2015/16 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.

14.0 IMPACT ON FUTURE YEARS

14.1 Attached at appendix 2 is the 30-year financial forecast. The focus for the 2016/17 budget has been to ensure that the HRA remains sustainable in the longer term. As with 2015/16, the budget for 2016/17 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.

14.2 The financial plan assumes that there are rent decreases for the next four years in line with government policy, thereafter rent increases are in line with the Council's rent policy and the Government's previous proposals (i.e. CPI plus 1%).

14.3 The financial strategy within the 30-year forecast also includes the MRP allowance for the repayment of the debt, such that headroom below the Debit Limit is created for new borrowing and is affordable. The Debt Limit set by government is £68.912m and current borrowing is at £61.29m. This means that the Council's headroom for borrowing is £7.622m for 2016/17. This is in addition to future borrowing required for the current capital programme over the next 3 years.

14.4 In view of the available headroom for new borrowing the Council, the council is now actively investing in new housing stock. Current projects include:

1. Redevelopment of Cecil Norris House.

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

3. Construction of new homes on infill sites such as Leconfield Close

All of these options are subject to a business case to ensure that they are financially viable which is of particular importance over the next four years.

14.5 To bring all of these considerations together, it is proposed to refresh the Adur Homes Business Plan periodically, and incorporate into the plan an assessment of the future of the housing stock – including the outcome of the the feasibility investigation into the new build proposals . This will also include an update to the asset management plan which will validate the assumptions in the 30-year forecast about the capital programme and maintenance provision.

15.0 SUMMARY AND RENTAL OPTIONS

15.1 The Council has no option but to decrease rents for the next four years for the majority of properties, however despite this, the HRA remains in a financially viable position. However, caution will need to be exercised over the coming years as the financial position will be difficult until such time as the Council regains control over its rent increases.

16.0 LEGAL IMPLICATIONS

16.1 The draft Welfare Reform and Work Bill has introduced the requirement to reduce social rents by 1%

> ‘In relation to each relevant year, registered providers of social housing must secure that the amount of rent payable in respect of that relevant year by a tenant of their social housing in England is at least 1% less than the amount of rent that was payable by the tenant in respect of the preceding 12 months.’

The Bill is due to be considered by the House of Lords in January 2016 and should gain royal assent before the end of the financial year.

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

i) the use of capital receipts under Right To Buy regulations, 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 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.

17.0 RECOMMENDATIONS

17.1 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 2016/17:-

(a) **Rents of Council Dwellings (except supported housing)** – agree a decrease of 1.0% reducing the average council dwelling rent by £0.92 to £91.08 per week (average rent currently £92.00 per week) – (Para.5.7)

(b) **Rents of Council Dwellings (supported housing) –** delegate to the Head of Housing in consultation with the Cabinet Member for Customer Services, the setting of the rent charge for supported housing subject to a maximum increase of 0.9% (CPI + 1%)

17.0 RECOMMENDATIONS

(c) **Rents of Council garages** – agree an increase of 5.0% to £9.48. (currently £9.03 per week), plus VAT for non-Council tenants) (Para.5.14)

(d) **Service Charges** - delegate to the Head of Housing and Chief Finance Officer in consultation with the Cabinet Member for Customer Services, the setting of the service charges (para. 11.2)

(iii) To approve a contribution of £311,000 to the earmarked reserve specifically for new development and refurbishment of council housing (para. 13.5)

(iv) To approve the HRA Treasury Management Strategy contained in Appendix 3.

Background Papers:

Reinvigoration the Right to Buy and one for one replacement

Laying the Foundations: A Housing Strategy for England

Guidance On Rents for Social Housing

Adur Capital Investment Programme 2015/16 and 2016/17

Welfare Work and Reform Bill

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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 was originally considered and supported by the Adur Homes Management Board on 17 November 2014

9.2 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 HOMES HOUSING REVENUE ACCOUNT

	ORIGINAL ESTIMATE 2015/16	ESTIMATE 2016/17
	£	£
EXPENDITURE		
General Management	2,788,660	3,032,520
Special Services	836,930	812,770
Rent, Rates, Taxes & Other Charges	33,940	44,400
Repairs & Maintenance	2,552,810	2,659,880
Depreciation	2,000,000	2,201,840
Bad/Doubtful Debt	50,000	50,000
Provision for refurbishment and new build	566,060	311,000
Capital Financing Costs		
Loan Repayments	1,717,000	1,717,000
Interest charges	2,636,660	2,322,240
Revenue Contributions to Capital	409,060	207,190
TOTAL EXPENDITURE	**13,591,120**	**13,358,840**
INCOME		
Dwelling Rents	(12,496,040)	(12,246,470)
Non-Dwelling Rents	(527,080)	(550,790)
Heating and Service Charges	(435,960)	(370,380)
Leaseholder's Service Charges	(104,040)	(163,200)
Interest Received	(28,000)	(28,000)
TOTAL INCOME	**(13,591,120)**	**(13,358,840)**
NET (SURPLUS)/DEFICIENCY	**-**	**-**

APPENDIX 2

HOUSING REVENUE ACCOUNT

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
EXPENDITURE										
General Management	2,789	3,032	3,093	3,155	3,218	3,282	3,348	3,415	3,483	3,553
Special Services	837	813	829	846	863	880	897	915	934	953
Rents, Rates, Taxes & Other Charges	34	44	45	46	47	48	49	50	51	52
OVERALL RUNNING COSTS	3,660	3,889	3,967	4,047	4,128	4,210	4,294	4,380	4,468	4,558
Annual Revenue Maintenance Costs	2,553	2,659	2,696	2,732	2,789	2,871	2,958	3,046	3,138	3,231
Revenue Contributution to Capital	409	207	207	15	0	0	0	0	0	9
Charges for Capital										
Depreciation	2,000	2,202	2,246	2,291	2,337	2,407	2,479	2,553	2,630	2,709
Minimum Revenue Provision	1,717	1,717	1,725	1,786	1,861	1,948	2,045	2,145	2,247	2,352
Interest payable										
Interest - on historic debt	974	974	974	974	974	974	974	974	974	974
Interest - on assumed debt	1,662	1,347	1,279	1,229	1,176	1,124	1,073	1,021	970	918
Interest - on capital programme	0	2	23	64	113	168	227	287	349	413
Provisions For Bad Debt	50	50	50	50	50	50	50	50	50	50
Contribution to Reserves	566	311	104	0	0	0	0	0	0	0
TOTAL EXPENDITURE	13,591	13,358	13,271	13,188	13,428	13,752	14,100	14,456	14,826	15,214
INCOME										
Dwelling Rents	-12,496	-12,246	-12,124	-12,002	-11,882	-12,239	-12,606	-12,984	-13,373	-13,775
Other Rents and Charges	-1,067	-1,084	-1,120	-1,158	-1,196	-1,236	-1,278	-1,321	-1,365	-1,411
Interest Received	-28	-28	-28	-28	-28	-28	-28	-28	-28	-28
TOTAL INCOME	-13,591	-13,358	-13,272	-13,188	-13,106	-13,503	-13,912	-14,333	-14,766	-15,214
NET COST OF SERVICES	**0**	**0**	**0**	**0**	**322**	**249**	**188**	**123**	**60**	**0**

APPENDIX 2

HOUSING REVENUE ACCOUNT										
	2025/26 £'000	**2026/27 £'000**	**2027/28 £'000**	**2028/29 £'000**	**2029/30 £'000**	**2030/31 £'000**	**2031/32 £'000**	**2032/33 £'000**	**2033/34 £'000**	**2034/35 £'000**
EXPENDITURE										
General Management	3,624	3,714	3,807	3,902	4,000	4,100	4,202	4,307	4,415	4,525
Special Services	971	996	1,021	1,046	1,072	1,099	1,126	1,155	1,184	1,213
Rents, Rates, Taxes & Other Charges	53	54	56	57	59	60	62	63	65	66
OVERALL RUNNING COSTS	4,648	4,764	4,884	5,005	5,131	5,259	5,390	5,525	5,664	5,804
Annual Revenue Maintenance Costs	3,328	3,428	3,530	3,673	3,819	3,971	4,130	4,296	4,468	4,647
Revenue Contributution to Capital	92	178	252	265	276	289	302	343	461	614
Charges for Capital										
Depreciation	2,790	2,874	2,960	3,078	3,201	3,329	3,462	3,600	3,744	3,894
Minimum Revenue Provision	2,460	2,566	2,670	2,773	2,878	2,984	3,091	3,192	3,239	3,266
Interest payable										
Interest - on historic debt	963	938	932	932	932	932	932	932	932	932
Interest - on assumed debt	866	814	763	711	659	607	556	504	452	401
Interest - on capital programme	478	541	603	665	728	792	855	899	921	931
Provisions For Bad Debt	50	50	50	50	50	50	50	50	50	50
Contribution to Reserves	0	0	0	0	0	0	0	0	0	0
TOTAL EXPENDITURE	15,675	16,153	16,644	17,152	17,674	18,213	18,768	19,341	19,931	20,539
INCOME										
Dwelling Rents	-14,188	-14,614	-15,052	-15,504	-15,969	-16,448	-16,941	-17,450	-17,973	-18,512
Other Rents and Charges	-1,459	-1,511	-1,564	-1,620	-1,677	-1,737	-1,799	-1,863	-1,930	-1,999
Interest Received	-28	-28	-28	-28	-28	-28	-28	-28	-28	-28
TOTAL INCOME	-15,675	-16,153	-16,644	-17,152	-17,674	-18,213	-18,768	-19,341	-19,931	-20,539
NET COST OF SERVICES	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

APPENDIX 2

HOUSING REVENUE ACCOUNT	2035/36 £'000	2036/37 £'000	2037/38 £'000	2038/39 £'000	2039/40 £'000	2040/41 £'000	2041/42 £'000	2042/43 £'000	2043/44 £'000	2044/45 £'000
EXPENDITURE										
General Management	4,639	4,755	4,873	4,995	5,120	5,248	5,379	5,514	5,652	5,793
Special Services	1,243	1,274	1,306	1,339	1,372	1,407	1,442	1,478	1,515	1,553
Rents, Rates, Taxes & Other Charges	68	70	71	73	75	77	79	81	83	85
OVERALL RUNNING COSTS	5,950	6,099	6,250	6,407	6,567	6,732	6,900	7,073	7,250	7,431
Annual Revenue Maintenance Costs	4,833	5,026	5,228	5,436	5,655	5,881	6,115	6,360	6,614	6,879
Revenue Contributution to Capital	802	1,020	1,260	1,522	1,808	2,120	2,453	2,795	3,116	3,440
Charges for Capital										
Depreciation	4,050	4,212	4,380	4,555	4,737	4,926	5,123	5,328	5,541	5,763
Minimum Revenue Provision	3,272	3,259	3,234	3,197	3,146	3,079	3,001	2,909	2,806	2,702
Interest payable										
Interest - on historic debt	932	932	932	932	932	932	932	932	932	932
Interest - on assumed debt	349	297	246	194	142	90	39	0	0	0
Interest - on capital programme	929	918	899	873	837	794	743	685	622	559
Provisions For Bad Debt	50	50	50	50	50	50	50	50	50	50
Contribution to Reserves	0	0	0	0	0	0	0	0	0	0
TOTAL EXPENDITURE	21,167	21,813	22,479	23,166	23,874	24,604	25,356	26,132	26,931	27,756
INCOME										
Dwelling Rents	-19,068	-19,640	-20,229	-20,836	-21,461	-22,105	-22,768	-23,451	-24,154	-24,879
Other Rents and Charges	-2,071	-2,145	-2,222	-2,302	-2,385	-2,471	-2,560	-2,653	-2,749	-2,849
Interest Received	-28	-28	-28	-28	-28	-28	-28	-28	-28	-28
TOTAL INCOME	-21,167	-21,813	-22,479	-23,166	-23,874	-24,604	-25,356	-26,132	-26,931	-27,756
NET COST OF SERVICES	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

APPENDIX 3

HRA TREASURY MANAGEMENT STRATEGY

1.0 INTRODUCTION

1.1 This Appendix sets out the HRA Treasury Management Strategy Statement for 2016-17. 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.

1.2 The strategy presented and proposed for 2016/17 is unchanged from 2015/16, as it has been accepted by the Council's external auditors as an appropriate method of apportioning debt management costs and interest accrued from balances and investments between HRA and General Fund.

1.3 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.

1.4 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".

1.5 The Council has adopted the "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.

1.6 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;

(ii) 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 is met in the Startegy 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 2015/16 and unchanged for 2016/17 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.

APPENDIX 3

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 (e.g. leasing), and results in an increase to the CFR. By comparing the CFR to the amount of actual borrowing the extent to which the Council is under or over borrowed is determined, and provides a key prudential indicator for performance management. The current estimates based on the capital investment programme for the next three years is shown in the table below:

Adur District Council	2014/15 Actual £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Capital Financing Requirement (CFR)					
General Fund	12.449	15.195	19.282	23.982	28.593
Housing Revenue Account	63.536	61.820	60.102	58.386	56.669
Total CFR	**75.985**	**77.015**	**79.384**	**82.368**	**85.262**
Actual Debt					
General Fund	(12.993)	(12.983)	(14.970)	(17.970)	(17.970)
Housing Revenue Account	(62.993)	(61.285)	(59.579)	(57.873)	(56.167)
Total Debt Amount	**(75.986)**	**(74.268)**	**(75.549)**	**(75.843)**	**(74.137)**
(Over)/Under Borrowing					
General Fund	(0.544)	2.212	4.312	6.012	10.623
Housing Revenue Account	0.543	0.535	0.523	0.513	0.502
Total	**0.001**	**2.747**	**4.835**	**6.525**	**11.125**
HRA Borrowing Headroom	**5.919**	**7.637**	**9.239**	**10.051**	**10.711**

(Note that the General Fund position is shown for comparative purposes and is extracted from the Annual Treasury Management & Annual Investment Strategy Report 2015/16-2017/18 submiited to the meeting of the Joint Strategic Committee on 2nd February 2016.

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 2014/15 by £910k, reflecting the amount by which debt aoutstanding and MRP has reduced over and above the incidence of new capital expenditure financed from borrowing since 2012/13. In the following years the amount by which actual borrowing is below CFR increases as the value of 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 is constrained by the requirement to stay within the HRA Debt Limit of £68.912m imposed by Central Government. This is only a constraint if the CFR based on capital investment proposals is above the debt limit. However, for all years from 2015/16 to 2017/18 the CFR is projected to be below the debt as reflected in the capital investment proposals approved by the meeting of the Joint Strategic Committee on 2 December, 2014.

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. 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 2018/19 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 – albeit the decision to borrow will be influenced by the prevailing forecast for interest rates, alternative sources of capital funding, and the ability to meet the direct financing costs of borrowing from within the approved HRA budget.

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 was 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 Before 2012/13, 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 at 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.