

HOUSING REVENUE ACCOUNT – BUDGET 2017/18

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 2017/18. The report also considers some of the strategic challenges facing the Housing Revenue Account over the next few years.

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 2017/18.
- 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 in the period 2016/17 – 2019/20.
- 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 2017/18 onwards.
- 2.5 The challenge of creating a sustainable business plan was made more difficult by the announcement last year 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 Osborne 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 4 years. Officers are recommending a reduction of 1% in line with the requirements of the Welfare Reform and Work Act..
- 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.
- 2.8 Adur Consultative Forum members will be invited to attend the Executive meeting to relay their views on the budgetary proposals.

3.0 STRATEGIC RISKS AND CHALLENGES

- 3.1 There are some specific challenges faced by the Housing Revenue Account over the next 5 years which will influence the 30 year business plan.
- Rent limitation
 - Impact of Right to Buy and sale of higher value properties.
 - Changes to Housing Benefit and Welfare Reform
 - Outcome of the condition survey (including fire protection works)
 - Changes to accounting practice

3.2 Rent limitation

- 3.2.1 The rent limitation measures announced by the Chancellor last year have had a profound impact on the HRA. Over the next five years, the Council will lose a substantial amount of rental income as follows:

	Budget 2016/17	Budget 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	-12,246	-12,124	-12,003	-11,883	-12,239
Income with inflationary increase (CPI + 1%)	-12,594	-12,972	-13,361	-13,762	-14,174
Income lost due to rental limitation	348	848	1,358	1,879	1,935

3.0 STRATEGIC RISKS AND CHALLENGES

3.2 Rent limitation

3.2.2 Once rent limitation comes to an end, the Council is unlikely to recover the lost income largely due to the government's rent guidelines which are likely to limit future rent increases to no more than inflation plus 1%.

3.2.3 The fall in income to the HRA will limit the scope to address both the issues raised by the condition surveys and the ability to invest in new properties although the Council remains committed to the redevelopment of Cecil Norris House and small scale development using the land owned by the HRA.

3.2.4 However, the Council will be faced with setting a deficit budget over the next few years as it grapples with the fall in rental income and the need to invest in council homes.

3.3 Impact of Right to Buy and Sale of Higher Value Properties

3.3.1 Council housing stock numbers have reduced over the past few years and will continue to decline in the short term as follows:

	2014/15	2015/16	2016/17 (Estimate)	2017/18 (Estimate)
Stock at 1 st April	2,631	2,617	2,609	2,601
Plus: Additions - Note(1)	2	1	0	0
Less: Right to Buy sales	16	9	8	8
Less: Disposals	0	0	0	0
Stock at 31st March	2,617	2,609	2,601	2,593

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.

3.3.2 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.

3.3.3 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 are the principles contained in the 2012 CLG publication "Reinvigorating Right To Buy and One For One Replacement – Information for Local Authorities"

3.0 STRATEGIC RISKS AND CHALLENGES

3.3 Impact of Right to Buy and Sale of Higher Value Properties

3.3.4 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.

3.3.5 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%.

3.3.6 Properties may be built by Adur Homes or another Registered Provider. Receipts from RTB will be returned to Government if we cannot allocate the receipts to any new homes.

3.3.7 *Sale of higher value properties*

In addition to the policy on Right to Buy, the Housing and Planning Act contains provisions that may require local authorities to make a payment to Government based on the estimated value of their high value vacant housing which will be used to fund the proposed extension of the Right to Buy to Housing Association tenants.

The legislation will not mandate which specific properties the local authority will be required to sell. However, to fund the payment the Council will be obliged to sell housing properties as they become vacant.

To date the Secretary of State for Communities and Local Government has not required any Council to make such a payment.

3.0 STRATEGIC RISKS AND CHALLENGES

3.3.8 The impact of both the Right to Buy policy and potentially the requirement to sell higher value properties has significant implications for both the HRA and the wider housing strategy. The Council will see a fall in the number of affordable housing units for rent in the area. The limitation on land availability makes it difficult to build additional units to replace those lost whether these are built directly by the Council or via others. Current demand for affordable housing far outstrips supply which has inevitable consequences for the local community. The loss of units will also compromise the financial viability of the HRA as outlined in paragraph 3.3.3.

3.4 Changes to Housing Benefit and Welfare Reform

3.4.1 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 implemented across the Country with implementation of Universal Credit expected in 2018 locally.

3.4.2 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.

3.4.3 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 and it is paid 6 weeks in arrears. The decision that benefit is to be spent on rent, as opposed to other expenditure, is in the hands of the individual recipient.

3.4.4 Research recently undertaken by the National Federation of Arm's-Length Management Organisations (NFA) and the Association for Retained Council Housing (ARCH), which together represent more than one million council homes in England, found the percentage of council home tenants in receipt of Universal Credit who are in rent arrears has increased by seven percentage points – from 79% in March last year to 86%. This compares with 39% of tenants in arrears who do not receive Universal Credit. Consequently as Universal credit is rolled out the Council may well see an increase in rent arrears, however the interim Head of Housing is currently assessing how the Council can best engage with such tenants to ensure that arrears are minimised,

3.4.5 Data from CenSus indicate that approximately 1825 or 70% of Adur Homes tenants are in receipt of housing benefit. No tenants are currently affected by the under occupancy charge.

3.4.6 In the year up to (and including December 2016), a total of 7 Adur Homes households have been assisted by a Discretionary Housing Payment. The data does not record whether this is due to rent arrears caused benefit changes. 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.

3.0 STRATEGIC RISKS AND CHALLENGES

3.4 Changes to Housing Benefit and Welfare Reform

3.4.7 The benefit changes will continue to present a challenge for 2017/18. Furthermore, changes to welfare benefits and the introduction 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 2016 (to date) there have been eight tenancies terminated for arrears. although none of these were due to the under occupation charge. (Between 1 April 2015 and 31 March 2016 there were three tenancies terminated for arrears).

3.4.8 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. Additionally, the Introductory Tenancies provides the opportunity to support new households, which includes financial support to prevent people from falling into arrears.

3.5 Outcome of the condition survey

3.5.1 A stock condition survey was undertaken earlier in the year. This revealed that the Council needs to invest £33m over the next 5 years. This had already been recognised when the 2016/17 capital strategy had been discussed, which recommended increasing the level of investment in new schemes from £3.7m to £5.1m (including £400k for new build schemes), an increase of £1.4m. However this will not be sufficient to meet the immediate investment needs of the housing stock.

3.5.2 The dilemma that the Council faces is how to balance the need to spend more on the current stock with the need to provide more Council housing to meet local need at a time when rental income is falling. However, the lack of investment in the current stock has significant implications.

3.5.3 The Council currently spends £1.8m (£698.58 per property) on revenue responsive maintenance on occupied properties which is higher than the benchmark figure of £645.98 per property. The level of spend reflects the under investment in the condition of the properties, and increasing the capital programme should reduce the level of spend on revenue maintenance in future. Consequently, the 30 year business plan assumes that the level of capital investment will increase over the next few years with a reducing level of revenue investment as follows:

Proposed budgets	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
Capital maintenance programme	4,700	5,290	5,900	6,518	7,148
Proposed increase		590	610	618	630
Revenue maintenance (excluding voids)	1,811	1,797	1,783	1,719	1,653
Estimated reduction		-14	-14	-64	-66

3.0 STRATEGIC RISKS AND CHALLENGES

3.5 Outcome of the condition survey

Once the backlog maintenance issues have been addressed, the level of investment required each year is expected to fall.

3.5.4 To minimise the financial impact of such a substantial increase in the capital programme upon the HRA, it is recommended that the annual set-aside for the repayment of debt is temporarily suspended (£1.7m) and that these resources are used to increase the size of the capital programme. Once the Council has addressed the backlog maintenance and returned to financial stability then these payments will resume.

3.5.5 There may be other benefits to addressing the backlog maintenance. The contact centre receives a considerable level of calls each year from tenants reporting issues with their properties. By improving the quality of the property, the level of calls should also reduce.

3.6 Changes to accounting practice

3.6.1 Earlier in the year the Council consulted on proposed changes to depreciation accounting. Under the previous guidance, the Council charged an amount for depreciation to the HRA which was equivalent to the Major Repairs Allowance which was then set aside to fund capital expenditure.

3.6.2 Under the new guidance, the Council will be obliged to charge depreciation to the HRA but this will be transferred to the Major Repairs Reserve and can then be used to fund capital expenditure or repay debt.

3.6.3 Depreciation is substantially higher than the Major Repairs Allowance, however within the HRA there is also a provision to repay debt and revenue set-asides to fund capital expenditure. Consequently, the implications of this change can be accommodated as follows:

	2016/17	2017/18
	£'000	£'000
Depreciation	2,202	4,407
Set-aside for loan repayments	1,717	-
Contribution to new development and acquisition reserve	311	-
Revenue contribution to capital outlay	207	-
Overall	4,437	4,407

3.6.4 The Council then has the option of using the Major Repairs Allowance to either pay for capital investment or the repayment of debt although in the period 2017/18 – 2021/22 the reserve will be used to fund capital expenditure whilst the Council addresses the issues raised by the condition survey (see paragraph 3.5.4 above).

4.0 THE HOUSING REVENUE ACCOUNT FOR 2017/18

4.1 The projected expenditure and income for the HRA in 2017/18 is as follows:-

	Estimate 2017/18	
	£'000	£'000
Expenditure		
Supervision and management	3,862	
Rent, rates, taxes and other charges	43	
Repairs and maintenance	2,798	
Depreciation	4,407	
Interest payments	2,316	
Movement in provision for bad debt	50	13,476
Income		
Net (Surplus)/Deficit for the year		-13,331
Proposed contribution to /(from) earmarked reserves		145
Overall position for the year		-
Balance brought forward 1 st April, 2017		145
Balance carried forward 31 st March, 2018		-2,074
		-1,929

More detailed estimates for the Housing Revenue Account for 2016/17 and 2017/18 are shown in Appendix 1.

4.2 These projections take into account the budget from 2016/17, 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
2016/17 budget	13,359
Impact of inflation	131
Impact of transition to depreciation accounting	-35
Other minor changes	21
2017/18 budget	13,476
Income:	
2016/17 budget	-13,358
Impact of 1% rent decrease	120
Improved voids management	-78
Impact of Right to Buy	21
Fall in income from garage rents to reflect current demand	5
Adjustment to service charges to reflect latest costs	-41
2017/18 budget	-13,331

4.0 THE HOUSING REVENUE ACCOUNT FOR 2017/18

4.3 The 2017/18 budget shows a deficit position, this results from a combination of factors including the rent reduction of 1% costing the Council £0.5m in real terms in the first year and the need to increase the capital investment programme to address maintenance issues with the current housing stock. 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 2018/19, the challenge of reducing rental income will become ever harder, with a need for services to be delivered as efficiently as possible. However, whilst rent limitation remains in place, the Council may be faced with a deficit budget whilst it addresses the current condition of the housing stock. Once rent limitation comes to an end, the financial position of the HRA will improve albeit over a number of years.

5.0 RENT SETTING FOR 2017/18

5.1 Rent setting for the HRA is currently governed by the The Social Housing Rents (Exceptions and Miscellaneous Provisions) Regulations 2016 which mandate that all rents must be reduced by 1% per year.

5.2 In 2016/17 most rents were reduced by 1% reducing the average council dwelling rent by £0.93 to £91.99 per week.

5.3 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 2017/18 is calculated at £98.36.

5.4 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 £8 below the formula rent the income shortfall represents £1.1m. 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.

This year's proposed average dwelling rent level

5.5 The **average rental decrease recommended** for 2017/18 is in line with the Welfare Reform and Work Act. The required rental decrease is 1%. This will decrease the average rent by £0.92 from £91.99 to **£91.07**. This rent reduction will apply to all current tenants.

5.6 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 2017/18, the current limit for Adur is £95.05.

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

5.0 RENT SETTING FOR 2017/18

- 5.8 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%.

It is intended to revert to this policy once the current Government rent limitation policy comes to an end.

Garage Rents

- 5.9 Garage rents were increased by 5.0% in 2016/17 to £9.48 per week (plus VAT for non-Council tenants). It is proposed that the garage rents be increased in 2017/18 by 2% to £9.67. These proposals will generate an extra £10,700 in income.

6.0 DEBT FINANCING COSTS

- 6.1 The debt financing costs chargeable to HRA in 2017/18 relate to interest payments. From 2017/18 any Voluntary Revenue Provision set aside for the repayment of the debt will be charged to the Major Repairs Reserve.

The costs relate to three types of debt:

- 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 or to refinance existing debt.

- 6.2 The budgeted costs are:

2017/18 Budget	Interest £000
Historic Debt	974
Settlement Debt	1,280
New Borrowing	62
Total Budget	2,316

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.

7.2 The budget for routine repair and maintenance has been increased by 2% which is 0.4% 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 housing 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 (£4.4m). This contribution is ring-fenced for repayment of debt or for direct financing of capital and maintenance expenditure;
- (iii) capital receipts from the sale of Council houses; and
- (iv) prudential borrowing (subject to affordability), but overall borrowing must be contained within the Debt Ceiling of £68.912m set by Central Government.

7.3.3 The HRA capital renovation programme for 2017/18 was approved at £5.1m by the Joint Strategic Committee at its meeting of 6th December, 2016 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.*

7.0 REPAIRS AND MAINTENANCE

7.3 Housing Capital Investment Programme

It should be noted that a stock condition survey recently undertaken has highlighted the need to increase the level of investment in future years. This is discussed in more detail in paragraph 3.5.

7.3.4 The programme also included an allowance for developing New Homes (£0.4m).

7.3.5 A detailed analysis of both the revenue maintenance spend and the capital spend is currently being undertaken to ensure that expenditure is targeted effectively.

8.0 SERVICE CHARGES – CONTRACT PRICE INCREASES

8.1 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.

8.2 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 Executive Member, Customer Services, authority to defer such an increase to a more cost-effective date.

9.0 REALLOCATIONS OF SALARIES AND CENTRAL COSTS

9.1 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. These costs are reviewed each year as part of the budget setting process.

10.0 LEVEL OF RESERVE BALANCES

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

10.0 LEVEL OF RESERVE BALANCES

Reserves	Forecast Balance at 01/04/16	Increase	Decrease	Forecast balance at year end 2016/17
	£000's	£000's	£000's	£000's
Housing Revenue Account	2,074	-	-	2,074
Discretionary Assistance Fund	116	-	-	116
New Development and Acquisition Fund	1,554	311	70	1,795
Business Development Fund	250	-	80	170
Major Repair Reserve	-	2,200	2,200	-
TOTAL	3,994	2,511	2,350	4,155

- 10.2 HRA general reserve balances are forecast to be £2.074m at 1st April 2017 and 15.4% of total expenditure. This is over the target level explained in Para 10.3 below, but reflective of the emphasis placed in securing resources to underpin revenue operations and capital expenditure in future years.
- 10.3 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.
- 10.4 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 and future risks surrounding revenues and costs (including the impact of the impending welfare reforms, the impact of rent limitation 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.
- 10.5 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 2017/18 capital budget includes provision for £4.3m to be utilised for financing HRA capital expenditure, comprising the carried forward balances and in-year contributions.
- 10.6 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.

11.0 IMPACT ON FUTURE YEARS

- 11.1 Attached at appendix 2 is the 30-year financial forecast. The focus for the 2017/18 budget has been to ensure that the HRA remains sustainable in the longer term whilst ensure that the issues raised by the condition survey are addressed. As with 2016/17, the proposed budget for 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.
- 11.2 The financial plan assumes that there are rent decreases for the next three 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%). The rent decrease places the HRA under significant financial pressure at the very time when the Council needs to invest more in maintaining the housing stock.
- 11.3 The Council has managed the impact of the falling rent levels in the first two years, setting a balanced budget in 2016/17 and with only a limited withdrawal from reserves planned for 2017/18. However the HRA will become increasing reliant on reserves over the following two years whilst the rent level remain constrained drawing down funds from the reserve. Once rent limitation comes to an end, the Council should be able to restore the reserves to the previous levels.

	2017/18	2018/19	2019/20	2020/21	2020/21
	£'000	£'000	£'000	£'000	£'000
Balance at the start of the year	2,074	1,929	1,594	1,035	845
Expected drawdown	-145	-335	-559	-190	142
Balance at the end of the year	1,929	1,594	1,035	845	987

There does remain a risk however that rent limitation will continue on beyond 2019/20.

- 11.4 The financial strategy within the 30-year forecast also includes the MRP allowance for the repayment of the debt once the maintenance backlog has been addressed, 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 £61.5m. This means that the Council's headroom for borrowing is £7.409m for 2017/18. This is in addition to future borrowing required for the current capital programme over the next 3 years.
- 11.5 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 Albion Street
 2. Redevelopment of Cecil Norris House.

11.0 IMPACT ON FUTURE YEARS

3. Repurchase of previously owned Council dwellings (particularly leasehold flats).
4. 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.

- 11.6 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.

12.0 SUMMARY AND RENTAL OPTIONS

- 12.1 The Council has no option but to decrease rents for the next three 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.

13.0 LEGAL IMPLICATIONS

- 13.1 The Welfare Reform and Work Act 2016 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.'

- 13.2 The Housing and Planning Act give the Secretary of State the power to issue a determination that requires any Local Housing Authority in England to make a payment to the Secretary of State in respect of any given financial year that represents an estimate of:

1. the market value of the authority's interest in any higher value housing that is likely to become vacant during the year, less
2. any costs or other deductions of a kind described in the determination.

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

13.0 LEGAL IMPLICATIONS

- 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.

14.0 RECOMMENDATIONS

14.1 The Executive 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 2017/18:-
 - (a) **Rents of Council Dwellings (except supported housing)** – agree a decrease of 1.0% reducing the average council dwelling rent by £0.92 to £91.07 per week (average rent currently £91.99 per week) – (Para.5.5)
 - (b) **Rents of Council garages** – agree an increase of 2.0% to £9.67. (currently £9.48 per week), plus VAT for non-Council tenants) (Para.5.9)
 - (c) **Service Charges** - delegate to the Head of Housing and Chief Financial Officer in consultation with the Executive Member for Customer Services, the setting of the service charges (para. 8.2)
- (iii) 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 2016/17 - 2019/20

Welfare Work and Reform Act 2016

2014/15 Housemark Benchmarking Survey

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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 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.

HOUSING REVENUE ACCOUNT

	ORIGINAL ESTIMATE 2016-17	ESTIMATE 2017/18
	£	£
EXPENDITURE		
General Management	3,032,520	3,671,240
Special Services	812,770	191,170
Rent, Rates, Taxes & Other Charges	44,400	42,830
Repairs & Maintenance	2,659,880	2,798,310
Depreciation	2,201,840	4,406,760
Bad/Doubtful Debt	50,000	50,000
Provision for refurbishment and new build	311,000	-
Capital Financing Costs		
Loan Repayments	1,717,000	-
Interest charges	2,322,240	2,315,330
Revenue Contributions to Capital	207,190	-
TOTAL EXPENDITURE	13,358,840	13,475,640
INCOME		
Dwelling Rents	(12,246,470)	(12,183,440)
Non-Dwelling Rents	(550,790)	(545,130)
Heating and Service Charges	(370,380)	(365,090)
Leaseholder's Service Charges	(163,200)	(209,000)
Interest Received	(28,000)	(28,000)
TOTAL INCOME	(13,358,840)	(13,330,660)
NET (SURPLUS)/DEFICIENCY	-	144,980

HOUSING REVENUE ACCOUNT										
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
EXPENDITURE										
General Management	3,033	3,671	3,745	3,820	3,896	3,974	4,053	4,134	4,217	4,301
Special Services	813	191	195	199	203	207	211	215	220	225
Rents, Rates, Taxes & Other Charges	44	43	44	45	45	46	47	48	49	50
OVERALL RUNNING COSTS	3,890	3,905	3,984	4,064	4,144	4,227	4,311	4,397	4,486	4,576
Annual Revenue Maintenance Costs	2,659	2,798	2,752	2,739	2,659	2,577	2,595	2,665	2,735	2,808
Revenue Contribution to Capital	207	0	0	0	0	0	0	516	690	883
Charges for Capital										
Depreciation	2,202	4,407	4,495	4,585	4,631	4,677	4,724	4,866	5,012	5,162
Minimum Revenue Provision	1,717	0	0	0	0	0	0	0	0	0
Interest payable										
Interest - on historic debt	974	974	974	974	974	974	974	974	963	938
Interest - on assumed debt	1,348	1,313	1,296	1,278	1,259	1,241	1,223	1,205	1,187	1,169
Interest - on capital programme	0	28	31	34	36	85	146	160	160	160
Provisions For Bad Debt	50	50	50	50	50	50	50	50	50	50
Contribution to Reserves	311	0	0	0	0	0	0	0	0	0
TOTAL EXPENDITURE	13,358	13,475	13,582	13,724	13,753	13,831	14,023	14,833	15,283	15,746
INCOME										
Dwelling Rents	-12,246	-12,183	-12,062	-11,941	-12,299	-12,668	-13,048	-13,440	-13,843	-14,258
Other Rents and Charges	-1,084	-1,119	-1,157	-1,196	-1,236	-1,277	-1,321	-1,365	-1,412	-1,460
Interest Received	-28	-28	-28	-28	-28	-28	-28	-28	-28	-28
TOTAL INCOME	-13,358	-13,330	-13,247	-13,165	-13,563	-13,973	-14,397	-14,833	-15,283	-15,746
NET COST OF SERVICES	0	145	335	559	190	-142	-374	0	0	0

HOUSING REVENUE ACCOUNT										
	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
EXPENDITURE										
General Management	4,387	4,497	4,610	4,725	4,843	4,964	5,088	5,215	5,346	5,479
Special Services	228	234	240	246	252	258	265	272	279	285
Rents, Rates, Taxes & Other Charges	51	52	54	55	56	58	59	61	62	64
OVERALL RUNNING COSTS	4,666	4,783	4,904	5,026	5,151	5,280	5,412	5,548	5,687	5,828
Annual Revenue Maintenance Costs	2,884	2,962	3,038	3,149	3,266	3,386	3,510	3,638	3,771	3,911
Revenue Contribution to Capital	1,064	1,256	1,455	1,573	1,689	1,821	1,951	2,021	2,140	2,258
Charges for Capital										
Depreciation	5,317	5,477	5,641	5,867	6,102	6,346	6,600	6,864	7,139	7,425
Interest payable										
Interest - on historic debt	932	932	932	932	932	932	932	932	932	932
Interest - on assumed debt	1,151	1,099	1,047	996	944	892	841	789	737	685
Interest - on capital programme	160	160	160	160	160	146	132	129	127	124
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	16,224	16,719	17,227	17,753	18,294	18,853	19,428	19,971	20,583	21,213
INCOME										
Dwelling Rents	-14,686	-15,127	-15,580	-16,048	-16,529	-17,025	-17,536	-18,062	-18,604	-19,162
Other Rents and Charges	-1,510	-1,564	-1,619	-1,677	-1,737	-1,800	-1,864	-1,931	-2,001	-2,073
Interest Received	-28	-28	-28	-28	-28	-28	-28	-28	-28	-28
TOTAL INCOME	-16,224	-16,719	-17,227	-17,753	-18,294	-18,853	-19,428	-20,021	-20,633	-21,263
NET COST OF SERVICES	0	0	0	0	0	0	0	-50	-50	-50

HOUSING REVENUE ACCOUNT										
	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	2045/46 £'000
EXPENDITURE										
General Management	5,616	5,757	5,901	6,048	6,199	6,354	6,513	6,676	6,843	7,014
Special Services	292	300	307	315	323	331	339	348	356	365
Rents, Rates, Taxes & Other Charges	66	67	69	71	72	74	76	78	80	82
OVERALL RUNNING COSTS	5,974	6,124	6,277	6,434	6,594	6,759	6,928	7,102	7,279	7,461
Annual Revenue Maintenance Costs	4,053	4,201	4,355	4,513	4,679	4,850	5,028	5,211	5,401	5,598
Revenue Contribution to Capital	2,422	2,598	2,726	2,840	2,952	3,063	3,159	3,215	3,270	3,322
Charges for Capital										
Depreciation	7,722	8,031	8,352	8,686	9,033	9,394	9,770	10,161	10,567	10,990
Interest payable										
Interest - on historic debt	932	932	932	932	932	932	932	932	932	932
Interest - on assumed debt	634	582	530	479	427	375	336	336	336	336
Interest - on capital programme	75	14	0	0	0	0	0	0	0	0
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	21,862	22,532	23,222	23,934	24,667	25,423	26,203	27,007	27,835	28,689
INCOME										
Dwelling Rents	-19,737	-20,329	-20,939	-21,567	-22,214	-22,880	-23,567	-24,274	-25,002	-25,752
Other Rents and Charges	-2,147	-2,225	-2,305	-2,389	-2,475	-2,565	-2,658	-2,755	-2,855	-2,959
Interest Received	-28	-28	-28	-28	-28	-28	-28	-28	-28	-28
TOTAL INCOME	-21,912	-22,582	-23,272	-23,984	-24,717	-25,473	-26,253	-27,057	-27,885	-28,739
NET COST OF SERVICES	-50	-50	-50	-50	-50	-50	-50	-50	-50	-50

1.0 INTRODUCTION

- 1.1 This Appendix sets out the HRA Treasury Management Strategy Statement for 2017-18. 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 treasury management and investment strategies presented and proposed for 2017/18 are unchanged from 2016/17, 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. However, in order to provide additional capital funding to address a backlog of maintenance, the Voluntary Revenue Provision will be suspended for at least 10 years.
- 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) Uninvested 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 Strategy 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

The central aim of the Strategy agreed for 2016/17 and unchanged for 2017/18 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 arrangements (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 this provides a key prudential indicator for performance management. The HRA Debt Limit is £68.912m. The current estimates, based on the capital investment programme for the next three years, are shown in the table below:

Adur District Council	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Capital Financing Requirement (CFR)					
General Fund	15.003	15.918	30.231	35.380	40.338
Housing Revenue Account	61.819	60.103	60.103	60.103	60.103
Total CFR	76.822	76.021	90.334	95.483	100.441
Actual Debt					
General Fund	(12.978)	(12.968)	(26.100)	(30.194)	(34.104)
Housing Revenue Account	(61.290)	(59.581)	(57.875)	(56.169)	(54.462)
Total Debt Amount	(74.268)	(72.549)	(83.975)	(86.363)	(88.566)
(Over)/Under Borrowing					
General Fund	2.025	2.950	4.131	5.186	6.234
Housing Revenue Account	0.529	0.522	2.228	3.934	5.641
Total	2.554	3.472	6.359	9.120	11.875
HRA Borrowing Headroom	7.622	9.331	11.037	12.743	14.450

(Note that the General Fund position is shown for comparative purposes and is extracted from the Annual Treasury Management & Annual Investment Strategy Report 2017/18-2019/20 submitted to the meeting of the Joint Strategic Committee on 2nd February 2017).

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 2015/16 by £529k, reflecting the amount by which debt outstanding and Minimum Revenue Provision (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 changes as the value 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 2017/18 to 2019/20 the CFR is projected to be below the debt as reflected in the capital investment proposals to be approved by the meeting of the Joint Strategic Committee on 2nd February 2017.

4.0 THE DEBT MATURITY PROFILE AND HEADROOM FOR NEW BORROWING

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 2019/20 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 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 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.