Adur Executive
4 February 2020
Agenda Item 4

ADC

ADUR DISTRICT
COUNCIL

Key Decision [Yes/~~No~~]

Ward(s) Affected: All

Housing Revenue Account: 2020/21 Budget

Report by the Director for Digital & Resources and the Director of Communities

Executive Summary

1. Purpose

1.1 This report sets out current and future financial landscape for the Housing Revenue Account and requests that Members agree to set the rent levels and service charges for 2020/21 as set out in the report. The report also considers some of the strategic challenges facing the Housing Revenue Account over the next few years and the impact that these will have over the next 30 years.

1.2 Members will be very aware that the rent limitation announced in 2015/16 has significantly affected the financial viability of the Housing Revenue Account for the past four years. However, the Council is now permitted to increase rents on social rent and affordable rent properties by up to the September CPI +1% each year from 2020. It is the Government's intention that this arrangement should remain in place for a period of at least five years.

1.3 The following appendices have been attached to this report:

(i) **Appendix 1** Proposed budget for 2020/21

(ii) **Appendix 2** 30 year financial forecast

(iii) **Appendix 3** HRA Treasury Management Strategy

2. Recommendations

2.1 The Executive is recommended to:

(i) consider and approve the Housing Revenue Account estimates for 2020/21 as set out in Appendix 1;

(ii) approve that the rents of Council Dwellings will increase by 2.7% increasing the average council dwelling rent by £2.42 to £92.18 per week (average rent currently £90.02 per week) – (Paragraph 6.3);

(iii) determine the level of associated rents and charges with effect from week one of 2020/21:

(a) **Rents of Council garages** – agree an increase of 2.7% to £10.57. (currently £10.29 per week, plus VAT for non-Council tenants) (Paragraph 6.6)

(b) **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 (paragraph 9.2)

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

3.0 CONTEXT

3.1 This report seeks to explain the main issues surrounding the budgets for the Housing Revenue Account to enable Members to set rent levels for 2020/21.

3.2 The Housing Revenue Account (HRA) represents the total costs and income of the Council in its provision of the Housing Landlord Service. This account is ring-fenced and is separate from all other income and expenditure of the Council.

3.3 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 recently limitations on the level of rent that could be levied in the period 2016/17 – 2019/20.

3.4 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 2020/21 onwards.

3.5 The challenge of creating a sustainable business plan was made more difficult by the announcement by the Chancellor in the Spring Budget 2015 that rent levels would be reduced by 1% for four years from 2016/17. We have now reached the end of the rent limitation and a new rental regime is being introduced for 2020/21 onwards.

3.6 The setting of rent levels is now an integral part of the financial planning decision making process. However, the Council are now allowed to increase rents by up to CPI + 1% for a period of at least 5 years. Consequently, officers are recommending the maximum increase of 2.7% to allow the HRA to gradually return to financial stability.

3.7 In April 2014 an Adur Homes Management Board (AHMB) was set up to support the delivery of the strategic objectives for Adur Homes. Members of the Board include the Executive Member for Customer Services and representatives from the Adur Consultative Forum. The Board, which included representatives from the Adur Consultative Forum, discussed the proposed budget for 2020/21 including the proposed rental increase. .

3.8 Adur Consultative Forum members are invited to attend the Executive meeting to relay their views on the budgetary proposals.

4.0 STRATEGIC RISKS AND CHALLENGES

4.1 There are some specific challenges faced by the Housing Revenue Account over the next 5 years which will influence the 30 year business plan.

- Legacy of 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

4.2 **Rent limitation**

4.2.1 The rent limitation measures announced by the Chancellor in 2015 has had a profound impact on the HRA over the past four years and will continue to impact on the HRA's future financial sustainability. Over the period of the reduction, the Council has lost and continues to lose a substantial amount of rental income as follows:

Financial year	Income including 1% reduction in 2016/17 - 2019/20 £'000	Income with inflationary increase (CPI + 1%) £'000	Income foregone £'000
2016/17	-12,246	-12,519	273
2017/18	-12,183	-12,845	662
2018/19	-11,992	-13,359	1,367
2019/20	-11,872	-13,760	1,888
2020/21	-12,228	-14,172	1,944

4.2.2 However, following a consultation on the future of rent setting, the Government confirmed that Council rents will now be under the scope of the Regulator of Social Housing who will set Rent Standards from April 2020. The Government considered that, with the changes to the welfare system, this approach provides the best option to control the welfare costs of social housing rents, protect the interests of existing social housing tenants, and ensure that providers have sufficient income to manage and maintain their properties, and to build new homes. Consequently the Council now has greater freedom in setting the rent for at least the next 5 years. The key features of the new rental arrangements are:

- Local authority registered providers will be able to increase rents by up to CPI + 1% each year for a period of at least five years.
- Local authorities to have the same rent standard as registered providers.
- Formula rent (with a 5% flexibility level) will be the limit on the initial rent that can be charged for a social rent property.

- The Council can let property at an affordable rent with the agreement of the Secretary of State or Homes England. Affordable rent is defined as a rent that must not exceed 80% of gross market rent.
- With the introduction of Universal Credit, not all local authority tenants will receive Housing Benefit. Consequently, limit rent (the maximum chargeable for which the HRA will be reimbursed via the Housing Benefit system) will be abolished.

4.2.3 The fall in income resulting from rent limitation to the HRA has limited the scope to address both the issues raised by the condition surveys and the ability to invest in new properties. The Council remains committed to the redevelopment of Albion Street, Cecil Norris House and small scale development using the land owned by the HRA. In addition, the council is seeking other opportunities to increase the number of homes within the HRA provided that there is a business case for such development.

4.2.4 However, the Council is faced with setting a deficit budget, and will therefore rely on the use of reserves over the next few years, as it grapples with the legacy of the fall in rental income and the need to invest in our council owned homes. Every opportunity will be taken to reduce costs in the interim to limit the call on reserves over the next 5 years.

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

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

	Stock at 1st April	**Plus:** Additions	**Less:** Sites being redeveloped	**Less:** Right to Buy sales	Stock at 31st March
2014/15 - Actual	2,631	2		16	2,617
2015/16 - Actual	2,617	1		9	2,609
2016/17 - Actual	2,609	0		10	2,599
2017/18 - Actual	2,599	0		8	2,591
2018/19 - Actual	2,591		30	9	2,552
2019/20 - Estimate	2,552	2		15	2,537
2020/21 - Estimate	2,537	14		8	2,543
2021/22 - Estimate	2,543	44		8	2,579

4.3.2 For 2019/20 the signs are that interest from tenants in the possible take up of RTB sales continues at a constant level. 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.

4.3.3 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 MHCLG 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”

4.3.4 The RTB scheme applies to all secure tenants who have been tenants for more than 3 years. The maximum percentage discount for a property is 70% up to a maximum cash value (the current maximum discount is £82,800). The cash cap increases in April every year in line with the Consumer Price Index.

4.3.5 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;

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

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

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

4.3.7 <u>Sale of higher value properties</u>

4.3.7.1 In addition to the policy on Right to Buy, the Housing and Planning Act 2016 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. In effect this would require councils to sell off their higher value council homes and return some of the funds raised to the Government.

4.3.7.2 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.

4.3.7.4 To date the Secretary of State for Communities and Local Government has not required any Council to make such a payment. The Government has now accepted that this policy was not appropriate when there are increasing housing shortages for lower income households. The Government's green paper; A new deal for social housing, contained the following announcement:

We have been listening to councils about their concerns that the Government may decide to implement provisions contained in the Housing and Planning Act 2016 which would mean they have to make a payment in respect of their vacant higher value council homes and return some of the funds raised to the Government. Many councils have told us that without knowing for certain whether this policy might be implemented in future years, it is difficult to make long term investment decisions. The Government remains committed to the principle that councils should use their housing assets effectively and should consider selling high value homes and using the funding to build more affordable housing. However, this should be a decision to be made *locally, not mandated through legislation and we understand that the uncertainty around the future of this policy could prevent councils from building. Therefore, to increase councils' confidence to plan ambitious house building programmes, we are confirming in this Green Paper that the Government will not bring the Higher Value Assets provisions of the Housing and Planning Act 2016 into effect*

4.3.8 The impact of the Right to Buy policy 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 4.3.3.

4.4 Changes to Housing Benefit and Welfare Reform

4.4.1 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. In 2018 Adur residents were included in the full roll out of Universal Credit for new claimants. Recent announcements from Government have paused the next phase of this programme to move existing claimants onto Universal Credit.

4.4.2 Experience from other areas suggests that the reforms can increase the financial pressures on some of the most vulnerable people of society, due to the introduction of caps on the total amount of weekly benefit paid and introducing further reductions for the under occupation of homes.

4.4.3 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 Credit will be paid directly to claimants rather than the current arrangement of direct payment to the Local Authority as landlord. Consequently, the decision that any funds will be spent on rent, as opposed to other expenditure, is in the hands of the individual recipient.

4.4.5 Research 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 2017 to 86%.This compares with 39% of tenants in arrears who do not receive Universal Credit. The level of arrears for Adur Homes continues to be higher than benchmarked authorities, although it is not clear that this is a direct result of the impacts of welfare reform and universal credit. This will be a key focus of work for 2020.

4.4.6 The recent trend in Adur District Council shows that…

	2016/17	2017/18	2018/19	2019/20
Current tenant arrears (as % of rent due)	3.36%	3.37%	3.57%	3.63%

4.4.7 Approximately 1,315 or 52% of Adur Homes tenants are in receipt of Housing Benefit.

4.4.7 The benefit changes continues to present a challenge. There is a continuing 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. Six tenancies were terminated in 2018/19 due to rent arrears. Four tenancies have been terminated to date this year.

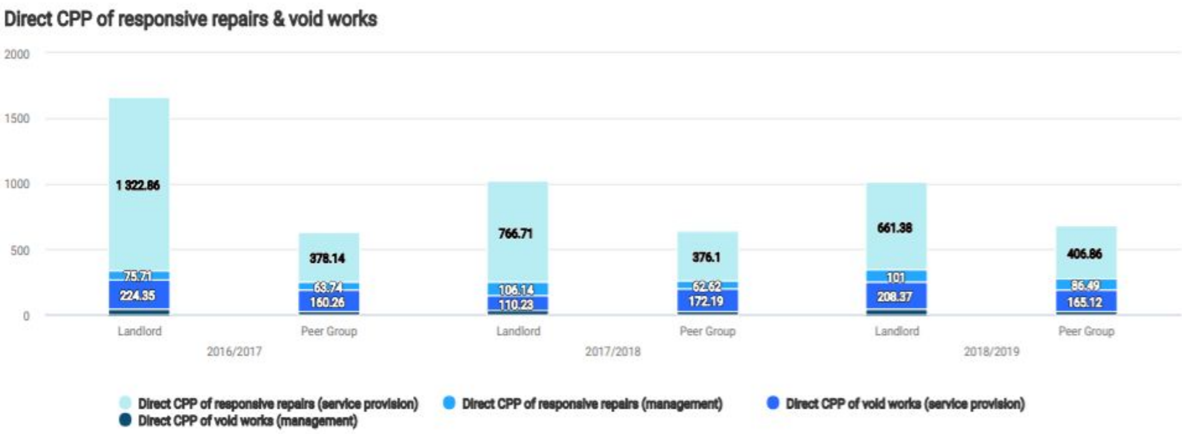
4.4.8 Some mitigation is in place to reduce tenants' arrears from growing, with a greater emphasis on tenancy sustainment. The number of tenants with rent arrears over £3,000, which was 30 at the end of last financial year had dropped to 19. Adur Homes stock has been split into patches, with an officer dedicated to each patch. This will ensure residents falling into rent arrears are identified early and provided with appropriate support. An Income Support Officer will be recruited to focus on tenants with significant rent arrears.

4.5 Outcome of the condition survey

4.5.1 Stock condition surveys have revealed that the Council needs to invest at least £33m over the next 5 years. This had already been recognised within the Council's capital strategy which has recommended increasing the level of investment in new schemes from £3.7m in 2016/17 rising to £5.6m in 2020/21 and beyond, an increase of £1.9m per year. However this will not be sufficient to meet the immediate investment needs of the housing stock.

4.5.2 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 needs at a time when the HRA is in deficit. However, the lack of investment in the current stock has significant implications.

4.5.3 The Council currently spends £2.213m (£869.55 per property) on revenue responsive maintenance. Overall our direct spend on both responsive repairs and void works 2018/19 was £869.75 per property which is significantly higher than the benchmark figure of £571.98. The benchmark is based on housing providers in the South East and South West of England with less than 10,000 properties. The level of spend reflects the under investment in the condition of the properties in previous years when the old housing subsidy system severely limited the annual amount of annual investment.



Source: 2018/19 Housemark Survey

4.5.4 The capital programme funding for property maintenance has been significantly increased over the last few years from £3.7m in 2016/17 to

£5.6m in 2020/21 which is specifically to address the issues raised by the condition survey. Increasing the capital programme should reduce the level of spend on day-to-day revenue maintenance in future. Consequently, the 30 year business plan assumes that the level of capital investment will continue to increase over the next few years with a reducing level of revenue maintenance as the capital investment begins to impact on demand for the responsive repair service as follows:

Proposed budgets	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Capital maintenance programme	5,400	5,500	5,600	5,600	5,600
Proposed increase		100	100	-	-
Total revenue maintenance	2,602	2,653	2,628	2,595	2,589
Estimated cash increase (+) / reduction (-) per year		+51	-25	-33	-6

4.5.5 The falling level of revenue maintenance in future years reflects both the increasing level of capital spend on properties combined with improvements in service management, procurement and contract management.

4.5.6 Once the backlog maintenance issues have been addressed, the level of capital investment required each year will need to be reassessed.

4.5.7 The capital funding for 2020/21 will be used to fund the following improvements:

- Significant programme of fire safety works £1.5m
- External works programme to a number of blocks
- A rolling programme of boiler replacements and kitchen and bathroom improvements.
- Works to support tenants with disabilities

5.0 THE HOUSING REVENUE ACCOUNT FOR 2020/21

5.1 The projected expenditure and income for the HRA in 2020/21 is as follows:-

	Estimate 2020/21	
	£'000	**£'000**
Expenditure		
Supervision and management	4,286	
Rent, rates, taxes and other charges	718	
Repairs and maintenance	2,694	
Depreciation	4,102	
Interest payments	2,228	
Movement in provision for bad debt	50	14,078
Income		-13,551
Net (Surplus)/Deficit for the year		527
Estimated balance brought forward 1st April, 2020		-1,094
Balance carried forward 31st March, 2021		**-567**

More detailed estimates for the Housing Revenue Account for 2019/20 and 2020/21 are shown in Appendix 1.

5.2 These projections take into account the budget from 2019/20, 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**
2019/20 budget	13,868
Impact of inflation	188
Increase in depreciation to reflect current level of investment and asset lives	81
Reduction in interest charges	-61
Other minor changes	2
2020/21 expenditure budget	**14,078**
Income:	**£'000**
2019/20 budget	-13,143
Impact of 1.7% rent increase	-380
Review of service charges	-46
Reduction from redevelopment programme	18
2020/21 income budget	**-13,551**

5.3 The deficit in the 2020/21 budget of £527,000 has reduced from that in 2019/20 largely due to the impact of the proposed rent increase.

5.4 Looking ahead to 2021/22, the overall position will gradually improve as rental level continues to increase due to the end of rent limitation. The financial position of the HRA is expected to gradually improve albeit over a period of 3 years. However, the annual increase to the HRA rents will still be constrained until 2025 at the earliest.

6.0 RENT SETTING FOR 2020/21

6.1 Rent setting for the HRA is now governed by the The Regulator of Social Housing and the Council has the ability to increase rates by CPI (Sept) + 1%.

6.2 In 2019/20 most rents were reduced by 1% and the average council dwelling rent fell by £0.91, or to £90.02 per week.

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

6.3 It is proposed to increase the rents by the maximum amount allowable (2.7%) to enable the HRA to tackle the deficit that has been generated from the previous government policy of enforced 1% rent reductions. This will increase the average rent by £2.43 to £92.45 per week. This rent increase will apply to all current tenants.

6.5 It is intended to relet vacant properties to new tenants at formula rent which is the maximum allowable under the new rental regime.

<u>Garage Rents</u>

6.6 Garage rents were increased by 3.3% in 2019/20 to £10.29 per week (plus VAT for non-Council tenants). It is proposed that the garage rents be increased in 2020/21 by 2.70% to £10.57 per week which is in line with current inflation rate (CPI) of 1.7% plus 1%. These proposals will generate an extra £15,700 in net income after allowing for voids

7.0 DEBT FINANCING COSTS

7.1 The debt financing costs chargeable to HRA in 2019/20 relate to interest payments.

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 £37,536m outstanding at 31st March 2020;

iii) new borrowing for capital expenditure or to refinance existing debt.

7.2 The budgeted costs are:

2020/21 Budget	Interest £000
Historic Debt	974
Settlement Debt	1,124
New Borrowing	130
Total Budget	**2,228**

8.0 REPAIRS AND MAINTENANCE

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

- Routine revenue repairs of a day-to-day nature and by planned maintenance such as repainting or boiler servicing.

- Capital investment programme of refurbishment and improvement on a larger scale.

8.2 Planned capital investment to buildings such as Rock Close and Lock Court which is scheduled to begin later this year, will result in a reduction in unplanned major works. An asset management strategy, which will include schedule cyclical maintenance, will be developed in the coming year. Regular planned maintenance will reduce the cost of unplanned costly repairs. Targeted changes are planned to improve how we deliver repairs and maintenance. These changes will focus on quality, efficiency and effectiveness of the entire repair and maintenance service. Consequently, the budget for routine repair and maintenance will decrease in real over the next 3 - 5 years to reflect the higher level of capital investment and improvements in service management, procurement and contract management.

8.3 **Housing Capital Investment Programme**

8.3.1 The capital investment programme typically comprises refurbishment and improvement on a larger scale for schemes such as fire safety works, replacement roofs and balconies, new central heating and double-glazing as well as new housing development schemes.

8.3.2 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 (£4.1m). This contribution is ring-fenced for repayment of debt or for direct financing of capital expenditure;

(iii) capital receipts from the sale of Council houses;

(iv) prudential borrowing (subject to affordability); and

(v) capital grants towards specific programmes of work.

8.3.3 The HRA capital renovation programme for 2020/21 was approved at £5.5m by the Joint Strategic Committee at its meeting of 4th December, 2018. Budgets of £5.6m for 2021/22 have recently been approved by Council on the 3rd January 2019. This reflected the recent condition survey and concerns about affordability due to the impact of rent limitation.

8.3.4 The programme also includes a development programme of £9m.

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

9.0 SERVICE CHARGES – CONTRACT PRICE INCREASES

9.1 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.

9.2 Members are therefore requested to delegate to the Head of Housing and the Chief Financial Officer in consultation with the Executive Member, Customer Services, authority to set service charges.

10.0 REALLOCATIONS OF SALARIES AND CENTRAL COSTS

10.1 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.

11.0 LEVEL OF RESERVE BALANCES

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

Reserves	**Estimated balance at 01/04/20**	**Increase**	**Decrease**	**Forecast balance at year end 2020/21**
	£000's	**£000's**	**£000's**	**£000's**
HRA - working balance	1,088	-	-510	578
Discretionary Assistance Fund	116	-	-	116
New Development and Acquisition Fund	1,640	-	-	1,640
Business Dev. Fund	109	-	-	109
Major Repairs Reserve	3,329	4,021	-6,477	873
TOTAL	**6,282**	**4,021**	**-6,987**	**3,316**

11.2 HRA general reserve balances are forecast to be £0.579m at 1st April 2021 and 4.11% of total expenditure. This is under the target level explained in detail in paragraph 11.3 below, but reflective of the current use of reserves to support the HRA during the period of rent limitation.

11.3 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.

11.4 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.

11.5 However, the council is still addressing the legacy of rent limitation and the HRA is not expected to return to surplus until 2022/23 at the earliest. Whilst it is predicted that the level of the general reserves will be below the target 6% for 2020/21, the 30 year business plan expects that the reserves will gradually return to more prudent levels over the next 5 years. To ensure that there are sufficient reserves to manage any risks in this period, it is intended to use the other earmarked reserves only when absolutely necessary. This will help ensure financial stability over the short to medium term

11.5 Any balance in the Major Repairs Reserve (MRR) is utilised to fund in-year capital expenditure or to repay debt. The final position at year end may fluctuate to reflect the spend on the capital programme. Altogether, the 2020/21 capital budget includes provision for £6.4m to be utilised for financing HRA capital expenditure, comprising the carried forward balances and in-year contributions.

12.0 IMPACT ON FUTURE YEARS

12.1 Attached at appendix 2 is the 30-year financial forecast. The focus for the 2020/21 budget has been to ensure that the HRA remains sustainable in the longer term whilst ensuring that the issues raised by the condition survey are addressed. The proposed budget 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 Council homes for the benefit of our existing tenants with priority currently given to fire safety and external maintenance issues.

12.2 The financial plan assumes that the rent will increase in 2020/21 and thereafter rent increases are in line with the Council's rent policy and the Government's proposals (i.e. CPI plus 1%). The legacy of the past four years of rent decreases has placed the HRA under significant financial pressure at the very time when the Council needs to invest more in maintaining the housing stock and needs to invest in new affordable homes for local residents.

12.3 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 in 2017/18. However the HRA has become increasingly reliant on reserves since 2018/19 whilst the rent level remains constrained drawing down funds from the reserve. Now that rent limitation has come to an end, the Council should be able to begin to restore the reserves to the previous levels.

	2017/18 Actual	**2018/19 Actual**	**2019/20 Expected**	**2020/21 Expected**	**2021/22 Expected**	**2022/23 Expected**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at the start of the year	2,074	1,939	1,752	1,088	578	371
Expected drawdown (-) / Contribution	-135	-187	-664	-510	-207	+63
Balance at the end of the year	1,939	1,752	1,088	578	371	434

12.6 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 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.

13.0 SUMMARY

13.1 The Council has the first opportunity to increase rents for four years. Given the legacy of the rent limitation, it is critical to increase the rents to enable the HRA to return to financial stability. Over the longer term, the HRA remains in a financially viable position able to invest in it's stock to address backlog maintenance and to maintain a development programme. However, caution will need to be exercised over the coming years as the financial position will be difficult for at least another 5 years until the HRA has become financially sustainable with an adequate level of reserves to manage future risks.

14.0 CONSULTATION

14.1 The report has previously been shared with members of the Adur Homes Management Board which comprises of the Executive Member for Customer Services and representatives from the Adur Consultative Forum.

14.2 Adur Consultative Forum members are invited to attend the Executive meeting to relay their views on the budgetary proposals.

14.3 Officers and members have been consulted on the development of the budget.

15.0 FINANCIAL IMPLICATIONS

15.1 The financial implications associated with the development of the budgets are detailed throughout the report.

16.0 LEGAL IMPLICATIONS

16.1 The Local Government and Housing Act 1989 requires the Council to maintain a housing revenue account (HRA) in relation to its social housing stock. The HRA operates separately from the Council's main budget and accounts. The Act also sets out how the HRA is funded and requires the Council to set a balanced budget for the HRA each year and to keep that budget under review.

16.2 The Welfare Reform and Work Act 2016 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.'

This requirement was effective for the financial years 2016/2017 - 2019-2020 but has now ended and has been replaced by the new rent setting provisions. The Government has issued the Direction on the Rent Standard 2019 under the Housing and Regeneration Act 2008. This allows the Council to increase social rents by no more than CPI plus 1% each year. The direction also sets out how new social rents are to be calculated.

16.3 The Housing and Planning Act 2016 gives 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.

16.4 There are no other legal implications arising from the proposed budget other than those relating to the use of capital receipts under Right To Buy regulations, and emanating from the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended)

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

Direction on Rent Standard 2019

Adur Capital Investment Programme 2019/20 - 2021/22

Welfare Work and Reform Act 2016

2018/19 Housemark Benchmarking Survey

A new deal for social housing August 2018 (Green Paper)

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SUSTAINABILITY AND RISK ASSESSMENT

1. ECONOMIC

Matter considered and no issues identified

2. SOCIAL

2.1 **Social Value**
Matter considered and no issues identified

2.2 **Equality Issues**
Matter considered and no issues identified

2.3 **Community Safety Issues (Section 17)**
Matter considered and no issues identified

2.4 **Human Rights Issues**
Matter considered and no issues identified

3. ENVIRONMENTAL

Matter considered and no issues identified

4. GOVERNANCE

Matter considered and no issues identified

Appendix 1

HOUSING REVENUE ACCOUNT		
	ORIGINAL ESTIMATE 2019/20	ESTIMATE 2020/21
	£	£
EXPENDITURE		
General Management	4,207,350	4,285,500
Special Services (including repairs related to specific properties or groups of tenants)	665,450	685,670
Rent, Rates, Taxes & Other Charges	31,690	32,320
General repairs and Maintenance	2,601,870	2,693,680
Depreciation	4,021,300	4,102,190
Bad/Doubtful Debt	50,000	50,000
Capital Financing Costs		
Interest charges	2,289,860	2,228,460
TOTAL EXPENDITURE	**13,867,520**	**14,077,820**
INCOME		
Dwelling Rents	(11,826,460)	(12,163,820)
Non-Dwelling Rents	(581,430)	(591,380)
Heating and Service Charges	(482,330)	(512,710)
Leaseholder Service Charges	(224,350)	(255,410)
Interest Received	(28,000)	(28,000)
TOTAL INCOME	**(13,142,570)**	**(13,551,320)**
NET (SURPLUS)/DEFICIENCY	**724,950**	**526,500**

APPENDIX 2

HRA - 30 year forecast

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
EXPENDITURE					
General Management	4,207	4,286	4,358	4,467	4,579
Special Services	665	686	703	720	738
Rents, Rates, Taxes & Other Charges	32	32	33	34	35
OVERALL RUNNING COSTS	4,904	5,004	5,094	5,221	5,352
Annual Revenue Maintenance Costs	2,602	2,694	2,667	2,635	2,630
Revenue Contribution to Capital	0	0	0	0	0
Depreciation	4,021	4,102	4,242	4,351	4,424
Interest payable					
Interest - on historic debt	974	974	974	974	974
Interest - on assumed debt	1,262	1,241	1,212	1,209	1,181
Interest - on capital programme	54	13	27	42	75
Provisions For Bad Debt	50	50	50	50	50
TOTAL EXPENDITURE	**13,867**	**14,078**	**14,266**	**14,482**	**14,686**
INCOME					
Dwelling Rents	-11,826	-12,164	-12,632	-13,083	-13,433
Other Rents and Charges	-1,288	-1,359	-1,398	-1,436	-1,475
Interest Received	-28	-28	-28	-28	-28
TOTAL INCOME	**-13,142**	**-13,551**	**-14,058**	**-14,547**	**-14,936**
NET COST OF SERVICES/SURPLUS (-)	**725**	**527**	**208**	**-65**	**-250**

APPENDIX 2

HRA - 30 year forecast

	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000
EXPENDITURE					
General Management	4,693	4,810	4,931	5,054	5,180
Special Services	757	776	795	815	835
Rents, Rates, Taxes & Other Charges	36	37	37	38	39
OVERALL RUNNING COSTS	5,486	5,623	5,763	5,907	6,054
Annual Revenue Maintenance Costs	2,674	2,719	2,765	2,825	2,886
Revenue Contribution to Capital	150	500	650	750	900
Depreciation	4,498	4,574	4,651	4,752	4,855
Interest payable					
Interest - on historic debt	963	938	932	932	932
Interest - on assumed debt	1,126	1,072	1,018	964	910
Interest - on capital programme	137	226	315	403	493
Provisions For Bad Debt	50	50	50	50	50
TOTAL EXPENDITURE	**15,084**	**15,702**	**16,144**	**16,583**	**17,080**
INCOME					
Dwelling Rents	-13,793	-14,162	-14,541	-14,931	-15,330
Other Rents and Charges	-1,515	-1,557	-1,599	-1,642	-1,687
Interest Received	-28	-28	-28	-28	-28
TOTAL INCOME	**-15,336**	**-15,747**	**-16,168**	**-16,601**	**-17,045**
NET COST OF SERVICES/SURPLUS (-)	**-252**	**-45**	**-24**	**-18**	**35**

APPENDIX 2

HRA - 30 year forecast

	2029/30 £'000	2030/31 £'000	2031/32 £'000	2032/33 £'000	2033/34 £'000
EXPENDITURE					
General Management	5,310	5,443	5,579	5,718	5,861
Special Services	856	878	900	922	945
Rents, Rates, Taxes & Other Charges	40	41	42	43	45
OVERALL RUNNING COSTS	6,206	6,362	6,521	6,683	6,851
Annual Revenue Maintenance Costs	2,949	3,013	3,079	3,145	3,214
Revenue Contribution to Capital	950	1,050	1,150	1,250	1,350
Depreciation	4,961	5,069	5,179	5,291	5,406
Interest payable					
Interest - on historic debt	932	932	932	932	932
Interest - on assumed debt	855	801	747	693	639
Interest - on capital programme	586	682	781	884	991
Provisions For Bad Debt	50	50	50	50	50
TOTAL EXPENDITURE	**17,489**	**17,959**	**18,439**	**18,928**	**19,433**
INCOME					
Dwelling Rents	-15,740	-16,160	-16,592	-17,035	-17,490
Other Rents and Charges	-1,733	-1,780	-1,829	-1,879	-1,930
Interest Received	-28	-28	-28	-28	-28
TOTAL INCOME	**-17,501**	**-17,968**	**-18,449**	**-18,942**	**-19,448**
NET COST OF SERVICES/SURPLUS (-)	**-12**	**-9**	**-10**	**-14**	**-15**

APPENDIX 2

HRA - 30 year forecast

	2034/35 £'000	2035/36 £'000	2036/37 £'000	2037/38 £'000	2038/39 £'000
EXPENDITURE					
General Management	6,008	6,158	6,312	6,469	6,631
Special Services	969	993	1,018	1,043	1,069
Rents, Rates, Taxes & Other Charges	46	47	48	49	50
OVERALL RUNNING COSTS	7,023	7,198	7,378	7,561	7,750
Annual Revenue Maintenance Costs	3,283	3,355	3,427	3,502	3,578
Revenue Contribution to Capital	1,450	1,550	1,690	1,810	1,950
Depreciation	5,523	5,643	5,765	5,890	6,018
Interest payable					
Interest - on historic debt	932	932	932	932	932
Interest - on assumed debt	584	532	480	428	376
Interest - on capital programme	1,101	1,201	1,306	1,412	1,503
Provisions For Bad Debt	50	50	50	50	50
TOTAL EXPENDITURE	**19,946**	**20,461**	**21,028**	**21,585**	**22,157**
INCOME					
Dwelling Rents	-17,957	-18,436	-18,927	-19,432	-19,949
Other Rents and Charges	-1,982	-2,037	-2,092	-2,149	-2,208
Interest Received	-28	-28	-28	-28	-28
TOTAL INCOME	**-19,967**	**-20,501**	**-21,047**	**-21,609**	**-22,185**
NET COST OF SERVICES/SURPLUS (-)	**-21**	**-40**	**-19**	**-24**	**-28**

APPENDIX 2

HRA - 30 year forecast

	2039/40 £'000	2040/41 £'000	2041/42 £'000	2042/43 £'000	2043/44 £'000
EXPENDITURE					
General Management	6,797	6,967	7,141	7,320	7,503
Special Services	1,096	1,124	1,152	1,180	1,210
Rents, Rates, Taxes & Other Charges	52	53	54	56	57
OVERALL RUNNING COSTS	7,945	8,144	8,347	8,556	8,770
Annual Revenue Maintenance Costs	3,655	3,734	3,815	3,897	3,981
Revenue Contribution to Capital	2,100	2,300	2,500	2,750	3,000
Depreciation	6,148	6,281	6,417	6,556	6,698
Interest payable					
Interest - on historic debt	932	932	932	932	932
Interest - on assumed debt	325	273	221	183	183
Interest - on capital programme	1,568	1,603	1,635	1,663	1,684
Provisions For Bad Debt	50	50	50	50	50
TOTAL EXPENDITURE	**22,078**	**22,723**	**23,367**	**24,020**	**24,674**
INCOME					
Dwelling Rents	-19,750	-20,276	-20,816	-21,371	-21,939
Other Rents and Charges	-2,469	-2,556	-2,646	-2,740	-2,837
Interest Received	-28	-28	-28	-28	-28
TOTAL INCOME	**-22,777**	**-23,384**	**-24,006**	**-24,646**	**-25,302**
NET COST OF SERVICES/SURPLUS (-)	**-54**	**-67**	**-89**	**-59**	**-4**

APPENDIX 2

HRA - 30 year forecast

	2044/45 £'000	2045/46 £'000	2046/47 £'000	2047/48 £'000	2048/49 £'000
EXPENDITURE					
General Management	7,690	7,882	8,079	8,281	8,488
Special Services	1,240	1,271	1,303	1,336	1,369
Rents, Rates, Taxes & Other Charges	58	60	61	63	65
OVERALL RUNNING COSTS	8,988	9,213	9,443	9,680	9,922
Annual Revenue Maintenance Costs	4,067	4,155	4,245	4,336	4,430
Revenue Contribution to Capital	3,200	3,400	3,650	3,900	4,150
Depreciation	6,843	6,991	7,142	7,296	7,453
Interest payable					
Interest - on historic debt	932	932	932	932	932
Interest - on assumed debt	183	183	183	183	183
Interest - on capital programme	1,698	1,705	1,705	1,696	1,676
Provisions For Bad Debt	50	50	50	50	50
TOTAL EXPENDITURE	**25,961**	**26,629**	**27,350**	**28,073**	**28,796**
INCOME					
Dwelling Rents	-23,353	-23,973	-24,610	-25,263	-25,933
Other Rents and Charges	-2,595	-2,666	-2,739	-2,814	-2,891
Interest Received	-28	-28	-28	-28	-28
TOTAL INCOME	**-25,976**	**-26,667**	**-27,377**	**-28,105**	**-28,852**
NET COST OF SERVICES/SURPLUS (-)	-15	-38	-27	-32	-56

APPENDIX 3

HRA TREASURY MANAGEMENT STRATEGY

1.0 INTRODUCTION

1.1 This Appendix sets out the HRA Treasury Management Strategy Statement for 2020/21. 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 2020/21 are unchanged from 2019/20, 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 until 2023/24.

1.3 Underpinning all Treasury Management activity of the Council is the CIPFA Treasury Management Code of Practice, which was revised in November 2011 to address the implications for introducing HRA Self-financing from 2012/13. An updated Code published in December 2017 did not include any changes to the HRA guidance.

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;

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

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

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
- 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 2019/20 and unchanged for 2020/21 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.

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 current estimates, based on the capital investment programme for the next three years, are shown in the table below:

Adur District Council	2018/19 Actual £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Capital Financing Requirement (CFR)					
General Fund	63.147	115.658	158.442	157.694	156.376
Housing Revenue Account	60.103	60.430	71.849	80.569	88.122
Total CFR	123.250	176.088	230.291	238.263	244.498
Actual Debt					
General Fund	(56.586)	(108.548)	(150.382)	(148.434)	(145.715)
Housing Revenue Account	(59.581)	(59.908)	(71.327)	(80.047)	(87.600)
Total Debt Amount	(116.167)	(168.456)	(221.709)	(228.480)	(233.315)
(Over)/Under Borrowing					
General Fund	6.561	7.110	8.060	9.260	10.661
Housing Revenue Account	0.522	0.522	0.522	0.522	0.522
Total	7.083	7.632	8.582	9.782	11.183

(Note that the General Fund position is shown for comparative purposes and is extracted from the Annual Treasury Management & Annual Investment Strategy Report 2020/21-2022/23 submitted to the meeting of the Joint Strategic Committee on 11th February 2020).

3.3 The comparison shows the HRA was under borrowed at the end of 2018/19 by £0.522m, 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 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 was previously constrained by the requirement to stay within the HRA Debt Limit of £68.912m imposed by Central Government. However this cap was removed in October 2018. For all years from 2020/21 to 2022/23 the HRA 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 11th February 2020.

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

4.1 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.

4.2 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".

4.3 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.

4.4 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

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

5.1 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.

5.2 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.

5.3 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.

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

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

6.2 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.

6.3 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.

6.4 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.

6.5 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.